FISCAL YEAR 1983 BUDGET FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

APRIL 14, 1982

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FISCAL YEAR 1983 BUDGET FOR CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION, AND U.S. TRADE REPRESENTATIVE

WEDNESDAY, APRIL 14, 1982

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2221, Dirksen Senate Office Building, the Honorable John C. Danforth (chairman of the subcommittee) presiding.

Present: Senators Danforth and Bentsen.

[The committee press release announcing this hearing and the prepared statement of Senator Dole follows:]

[Press Release, Mar. 29, 1982]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING

Senator John C. Danforth (R., Mo.), Chairman of the Subcommittee on International Trade of the Committee on Finance announced today that the Sucommittee will hold a hearing on Wednesday, April 14, 1982 on:

The fiscal year 1983 Budget for the Customs Service.

The fiscal year 1983 Budget for the International Trade Commission.

The fiscal year 1983 Budget for the U.S. Trade Representative.

The hearing will begin at 9:30 a.m. in Room 2221 of the Dirksen Senate Office Building.

Requests to testify.—Witnesses who desire to testify at the hearing must submit written requests to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, to be received not later than noon on Thursday, April 8, 1982. Witnesses will be notified as soon as practicable thereafter whether it has been possible to schedule them to present oral testimony. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. In such a case, a witness should notify the Committee as soon as possible of his inability to appear.

STATEMENT OF SENATOR BOB DOLE

Mr. Chairman, at this hearing the subcommittee will receive testimony on the budget requests of three agencies crucial to U.S. international trade interests. The USTR, the USITC, and the Customs Service all play separate and distinct but equally important roles in formulating and carrying out the trade policy and trade laws of the United States.

The budget authorization requests of the USTR and the USITC essentially are standstill budgets. Each agency is requesting an authorization necessary to maintain present personnel levels. While there are some additional functions that each agency might reasonably be asked to carry out I believe their budget request are adequate and justifiable in view of present conditions.

I am greatly concerned, however, about the proposed Customs budget. This proposal falls approximately $44 million short of the amount necessary to maintain the existing level of operations in the Customs Service. If adopted the proposed budget would require a 15-percent reduction of Custom's personnel and would force a curtailment of vital Customs functions.

Since the Customs Service returns 18 dollars to the Treasury for every dollar it spends I strongly believe that personnel cuts which could have a substantially adverse impact on our business community should be closely examined. I expect the Customs Service representatives will address the wisdom and necessity for these proposed cuts in their remarks and I will be extremely interested in the basis upon which the proposals have been made.

Senator DANFORTH. The meeting will be in order.

This is an authorization hearing for the U.S. Trade Representative, the International Trade Commission, and the U.S. Customs Service. The first witness is Dennis Whitfield, the Executive Assistant to the U.S. Trade Representative.

STATEMENT OF DENNIS WHITFIELD, EXECUTIVE ASSISTANT TO THE U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY JOHN P. GIACOMINI, DIRECTOR, OFFICE OF MANAGEMENT

Mr. WHITFIELD. Mr. Chairman, I am pleased to appear before you today and discuss our resource needs for fiscal year 1983 and respond to any questions that you might have.

If I could, we have a copy of the statement for the record which I would summarize. We have two things we would like to do today: talk about this for a moment and then bring you up to date on the study that we did at the request of you and Senator Long.

We are in the process now of continuing to seek a new 5-year authorization beginning with the fiscal year 1983. I appreciate the efforts that you and your staff are making to help us get this. As you know, we had a reorganization, an internal reorganization in the midpart of last year. The focus on that was to try to do the best job possible with the limited resources we were faced with in light of the administration's mandate to cut back. We think we have been able to do that, but I would like to note that we have, since fiscal year 1980, held our permanent, full-time positions to 113. In this fiscal year we are working under a work year allocation of 131 work-years. The 113 are full-time, permanent positions. The remaining 18 work-years are used to employ other-than-permanent personnel such as consultants, part-time people, secretaries, and temporary professional expertise that we need.

It is worthy to note, I think, that to supplement the permanent staff that we are working with we do have 14 students who are volunteers that work with us on a part-time basis doing research tasks and represent 5 local and 3 out-of-town universities. Our estimates indicate that we are saving to date about $26,000 utilizing this type of resource.

For fiscal year 1983 we are proposing a budget of $10.1 million, which is $1.1 million above our current allocation. It represents, in effect, a maintenance budget that will help offset rising costs. Any reduction will seriously affect our capability to do the job that we are assigned to do. We are, for instance, facing increased costs in a number of areas such as airline transportation, which is expected to increase around 15 or 16 percent this year and then into fiscal year 1983 as well.

It is also worthy of note, I think, that, in light of the internal reorganization that we did, we instituted tighter controls over travel, the budgetary process, and so forth, in order to stretch the dollars that we have as far as we can possibly go with it.

With the requested resources, we are going to be able to pursue the administration's and this Congress commitment to the economic growth in the trade area that this committee, the committee in the House, and Ambassador Brock are committed to.

One last thing I would note is that we are not requesting any additional personnel for full-time positions for fiscal year 1983. The increase of $1.1 million partially offsets pay increases and inflationary costs we expect to incur with the maintenance staff level that we have now.

If we could take the statement and insert it into the record, I would be glad to try to answer any questions.

Senator DANFORTH. Without objection, the full statement will be inserted.

[The prepared statement of Dennis Whitfield, Executive Assistant, U.S. Trade Representative, follows:]

TESTIMONY OF

DENNIS E. WHITFIELD
ASSISTANT U.S. TRADE REPRESENTATIVE

BEFORE THE

SENATE FINANCE COMMITTEE

APRIL 14, 1982
9:30 A.M.

CONTACT: JOHN P. GIACOMINI
DIRECTOR
OFFICE OF MANAGEMENT
USTR
(202) 395-5123

MR. CHAIRMAN, I AM PLEASED TO BE HERE TODAY TO REPORT ON A MATTER WHICH WAS RAISED BY YOU AND SENATOR LONG AT HEARINGS HELD LAST APRIL. YOUR CONCERN WAS THAT THE UNITED STATES MAY NOT BE PROVIDING ADEQUATE TRAINING AND DEVELOPMENT FOR ITS TRADE EXPERTS AND NEGOTIATORS. YOU REQUESTED THAT USTR IDENTIFY ACTIONS WHICH MIGHT BE TAKEN TO IMPROVE THE SELECTION, DEVELOPMENT, AND RETENTION OF ITS INTERNATIONAL TRADE STAFF. THE COMMITTEE ALSO ENCOURAGED USTR TO SURVEY GRADUATE AMERICAN EDUCATIONAL PROGRAMS IN INTERNATIONAL TRADE AS COMPARED WITH FOREIGN PROGRAMS, AND TO RECOMMEND STEPS THAT COULD BE TAKEN TO ASSURE A CADRE OF U.S. TRADE NEGOTIATORS WHO ARE THE BEST QUALIFIED IN THE WORLD.

TO THIS END, THE USTR INITIATED A STUDY WHICH ADDRESSED YOUR CONCERNS. MORE THAN 100 INDIVIDUALS WERE INTERVIEWED INCLUDING CURRENT USTR STAFF, FORMER U.S. TRADE REPRESENTATIVES AND NEGOTIATORS, LABOR UNION REPRESENTATIVES, CONGRESSIONAL STAFF, ACADEMICS, AUTHORS OF BOOKS AND COURSES IN NEGOTIATION, HEADS AND SENIOR STAFF PERSONNEL OF SEVERAL PERMANENT FOREIGN MISSIONS, SENIOR OFFICIALS OF THE GATT, AND FACULTY OF THE GRADUATE INSTITUTE OF INTERNATIONAL STUDIES IN GENEVA.

THE RESULTS CAN BE SUMMARIZED AS FOLLOWS:

-- THE USTR STAFF IS REGARDED, BOTH HERE AND ABROAD, AS BEING OF HIGH CALIBRE AND KNOWLEDGEABLE.

-- LACK OF PERSONNEL CONTINUITY DOES HINDER U.S. TRADE POLICY, REDUCES INSTITUTIONAL MEMORY, AND IMPAIRS THE EFFECTIVENESS OF OUR NEGOTIATIONS.

-- RETENTION OF GOVERNMENT PERSONNEL IN THE INTERNATIONAL TRADE FIELD CAN BE INCREASED TO SOME DEGREE. IT IS MUCH MORE OF A PROBLEM FOR THE UNITED STATES THAN IT IS FOR OTHER COUNTRIES.

-- CURRENT U.S. PAY SCALES AND FRINGE BENEFITS ARE PRIME FACTORS WHICH CONTRIBUTE TO TURNOVER AND LACK OF CONTINUITY. COMPENSATION FALLS SIGNIFICANTLY BELOW THOSE OF A NUMBER OF OTHER COUNTRIES.

-- THE PRIVATE SECTOR MARKET IN THE U.S. FOR QUALIFIED INDIVIDUALS IN GOVERNMENT INSTITUTIONS, FAR EXCEEDS THAT OF OTHER COUNTRIES.

-- NEGOTIATORS ARE TRAINED NOT BORN. NEGOTIATION REQUIRES KNOWLEDGE OF TECHNIQUES AND ACTUAL NEGOTIATION EXPERIENCE.

-- A COMPREHENSIVE THREE TO FIVE YEAR DEVELOPMENT PROGRAM FOR USTR STAFF WOULD ENHANCE THE STRENGTH OF INDIVIDUAL NEGOTIATORS. SUCH DEVELOPMENTAL PROGRAMS ARE IMPORTANT FUNCTIONS IN MOST OF THE COUNTRIES WHICH WE CONTACTED AND ARE INSTITUTIONALIZED TO A GREATER DEGREE, WITH LARGER INVESTMENTS OF RESOURCES.

-- THE UNITED STATES IS IN A STRONG POSITION REGARDING ACADEMIC DEGREE PROGRAMS, CONCENTRATIONS, AND AVAILABILITY OF INSERVICE TRAINING.

-- ALTHOUGH IT WOULD REQUIRE CONSIDERABLE RESOURCES, USTR SHOULD HAVE AN ENHANCED CAPABILITY TO RECORD, STORE, AND RETRIEVE DOCUMENTS DEALING WITH PRECEDENTS, DECISIONS AND PAST NEGOTIATIONS.

TURNOVER OF TOP LEVEL, HIGHLY EXPERIENCED STAFF AT THE USTR CONTINUES. JUST SINCE LAST JULY, WE HAVE LOST THREE OUT OF TEN, OR 30%, OF OUR SENIOR CAREER MANAGERS TO THE PRIVATE SECTOR, ONE OF WHOM WAS OUR SENIOR ASSISTANT U.S. TRADE REPRESENTATIVE. THIS IS A MUCH HIGHER THAN USUAL ATTRITION RATE BUT DOES CONFIRM THE NEED FOR ACTION IDENTIFIED BY THIS STUDY. THESE INDIVIDUALS WERE ALL MEMBERS OF THE SENIOR EXECUTIVE SERVICE AND REPRESENTED AN AVERAGE OF 24 YEARS OF GOVERNMENT SERVICE, AND AN AVERAGE OF 7 YEARS OF EXPERIENCE WITH USTR. KNOWLEDGE OF PAST PRACTICES, LAWS, CUSTOMS, AND STRONG PERSONAL RELATIONSHIPS DEVELOPED OVER MULTIPLE NEGOTIATIONS AND SITUATIONS, CONTRIBUTE DIRECTLY TO EFFECTIVE NEGOTIATIONS. GIVEN THE NATURE OF THE NEGOTIATION PROCESS, CONTINUATION OF SUCH TURNOVER IS MOST UNDESIRABLE AND WILL WORK AGAINST US.

THE PRIVATE SECTOR MARKET FOR USTR STAFF FAR EXCEEDS THAT OF OTHER COUNTRIES. IT IS A UNIQUE, ADDITIONAL OBSTACLE IN ACHIEVING STAFF STABILITY AND CONTINUITY. THERE IS A DEFINITE WILLINGNESS OF COMPANIES TO INVEST IN THE KINDS OF SPECIALIZED KNOWLEDGE AND TALENT POSSESSED BY MEMBERS OF OUR STAFF. THE ATTRACTION OF HIGHER SALARIES AND BETTER FRINGE BENEFITS IS DIFFICULT TO RESIST. THESE ARE THE MAJOR CAUSES FOR DEPARTURE. ALSO, AND SIGNIFICANTLY, TOP STAFF LEAVE BECAUSE OF LACK OF FURTHER OPPORTUNITY AND CAREER LADDERS, AND DECREASING WORK CHALLENGES.

THIS SITUATION IS IN DIRECT CONTRAST TO THE RESULTS OF OUR INVESTIGATION OF OTHER COUNTRIES. RETENTION OF PERSONNEL IS NOT A SERIOUS PROBLEM FOR OTHER COUNTRIES OR INTERNATIONAL TRADE INSTITUTIONS. SALARIES AND RELATED COMPENSATION ARE SIGNIFICANTLY HIGHER IN THE EUROPEAN ECONOMIC COMMUNITY AND IN MANY TRADING COUNTRIES (ATTACHMENT 1). THIS IS ESPECIALLY TRUE FOR LEAD NEGOTIATORS. THE CRITICAL POSITIONS FOR USTR ARE THE ASSISTANT US. TRADE REPRESENTATIVES AND ATTORNEYS, TECHNICAL AND POLICY EXPERTS. IN THIS GROUP, LIES OUR OPPORTUNITY FOR CONTINUITY IN POLICY STRATEGY, AND TO THE EVOLUTION OF NEGOTIATION EXPERTISE AND IN TURN, NEGOTIATING SUCCESSES.

COMPENSATION WAS THE FACTOR MOST FREQUENTLY MENTIONED AS THE PRIME HINDERANCE TO LONGER CAREER SERVICE IN USTR. ANY COMPENSATION SYSTEM MUST BE EQUITABLE, ALLOW FOR EFFECTIVE RECRUITMENT AND RETENTION, AND MUST BE PREDICTABLE. USTR MUST BE IN A BETTER POSITION TO COMPETE WITH OTHERS FOR HIGH QUALITY PERSONNEL.

ANOTHER PERSONNEL FACTOR, WHICH WAS PARTIALLY RESOLVED WITH THE INCREASE IN STAFF THE AGENCY WAS GRANTED UNDER THE TRADE RE-ORGANIZATION IN 1979, WAS THE EVOLUTION FROM AN ORGANIZATION THAT RELIED HEAVILY ON AD-HOC STAFFING ARRANGEMENTS, TO ONE WITH MORE PERMANENT STAFF MEMBERS. THE AGENCY MUST CONTINUE TO MATURE AS A PERMANENT INSTITUTION, TO DEVELOP FULLY A RANGE OF CAPABILITIES, AND TO RELY LESS ON BORROWED EXPERTISE. SINCE LATE 1979, TOTAL PERMANENT PERSONNEL STRENGTH HAS NOT INCREASED AND THEREFORE, GIVEN NEW RESPONSIBILITIES AND A HEAVY NEGOTIATING WORKLOAD, THERE IS AGAIN INCREASED DEPENDENCE ON TALENT BORROWED FROM OTHER AGENCIES, CONSULTANTS, AND CONTRACTORS. ADDITIONAL RESPONSIBILITIES SUCH AS THE CARIBBEAN BASIN INITIATIVE HAVE BEEN ASSUMED BY THE AGENCY AND ARE STRETCHING THE STAFF VERY THIN.

ACCORDING TO THE INDIVIDUALS WHO WERE INTERVIEWED, NEGOTIATORS ARE TRAINED AND DEVELOPED; THEY ARE NOT "BORN NEGOTIATORS". EXPERTISE IS A RESULT OF TRAINING, ON-THE-JOB EXPERIENCE, AND OBSERVATION OF SKILLED NEGOTIATORS. IN MOST FOREIGN COUNTRIES, CAREER DEVELOPMENT IS CONSIDERED TO BE AN IMPORTANT, APPROPRIATE, AND LONG TERM FUNCTION, AND IS BETTER GEARED TO EMPHASIZE DEVELOPMENTAL AND TRAINING ACTIVITIES.

FOR EXAMPLE, AUSTRALIA IS REPORTED AS HAVING A RATHER EXTENSIVE COMMITMENT TO CAREER DEVELOPMENT OF ITS TRADE STAFF. NEW EMPLOYEES ARE PROVIDED WITH A FULL ONE YEAR TRAINING PROGRAM, INCLUDED AS PART OF AN 18-MONTH ROTATIONAL SERIES OF ASSIGNMENTS. FOLLOWING SUCCESSFUL COMPLETION OF THE 18-MONTH PROGRAM, STAFF ARE PUT INTO LINE POSITIONS. AFTER THAT, PROMOTIONS ARE BASED ON INDIVIDUAL PERFORMANCE. POLICY STAFF ARE EXPECTED TO MOVE AROUND THE VARIOUS POLICY AND PROGRAM DIVISIONS IN THE TRADE DEPARTMENT. AT THE SENIOR LEVEL, PEOPLE CAN BE EXPECTED TO SERVE AT LEAST ONE THREE-YEAR TERM OVERSEAS.

FOLLOWING THE TRADE REORGANIZATION, USTR RECOGNIZED THE NEED FOR CAREER DEVELOPMENT ACTIVITIES AND ESTABLISHED ITS FIRST EXECUTIVE DEVELOPMENT PLAN WHICH COULD BE ACCOMPLISHED WITHIN

AVAILABLE RESOURCES. CAREER DEVELOPMENT ACTIVITIES ARE PLANNED FOR ALL PROFESSIONAL STAFF AND EMPHASIZE APPROPRIATE SEMINARS AND COURSES, DEVELOPMENTAL ACTIVITIES BOTH WITHIN AND OUTSIDE THE AGENCY, AND LONG-TERM TRAINING. PROFESSIONAL COUNSELING SERVICES HAVE ALSO BEEN PROVIDED FOR THE STAFF TO ASSURE THAT OUR MONEY IS BEING SPENT IN THE BEST POSSIBLE WAY.

OUR INVESTIGATION HAS REVEALED THAT WE NEED TO DO MORE IN THIS AREA. THE IMPORTANCE OF INTERNATIONAL TRADE JUSTIFIES LARGER INVESTMENTS TO MORE FINELY TUNE THE COMPETENCIES OF THE STAFF, AND A DEEPER INSTITUTIONAL COMMITMENT TO THIS. AS WE MOVE TO INSTITUTIONALIZE CAREER DEVELOPMENT, WE WOULD CONCURRENTLY LOOK AT EXISTING STANDARDS FOR ENTRY AND MID-LEVEL PROFESSIONALS, LEAD NEGOTIATORS, AND AUSTR POSITIONS, AND TO MEASURE THESE AGAINST ORGANIZATIONAL NEEDS.

AN EXAMINATION OF FORMAL AND OTHER TRAINING RESOURCES AVAILABLE IN SEVERAL EUROPEAN COUNTRIES REVEALED THAT THE UNITED STATES IS IN A STRONG POSITION AS FAR AS DEGREE PROGRAMS, CONCENTRATIONS, AND IN-SERVICE TRAINING IS CONCERNED. WE MUST TAKE ADVANTAGE OF THESE

EDUCATIONAL RESOURCES AND WORK CONTINUALLY TOWARD IMPROVING SKILLS.

BASED ON OUR INTERVIEWS, A NUMBER OF U.S. SCHOOLS WERE IDENTIFIED WHICH HAVE EFFECTIVE GRADUATE PROGRAMS, INCLUDING MID-CAREER PROGRAMS, IN INTERNATIONAL BUSINESS AND INTERNATIONAL STUDIES WITH AN EMPHASIS ON INTERNATIONAL TRADE AND ECONOMICS.

BASED ON INTERVIEWS WITH FOREIGN REPRESENTATIVES, THERE ARE A NUMBER OF GOOD GRADUATE PROGRAMS IN EUROPE INCLUDING THE GRADUATE INSTITUTION IN GENEVA, UNIVERSITY OF PARIS AND MANCHESTER SCHOOL OF BUSINESS AND THE LONDON SCHOOL OF ECONOMICS. HOWEVER, THEY DO NOT APPEAR TO BE SUPERIOR TO U.S. PROGRAMS.

ANOTHER AREA THAT MERITS CONSIDERATION IS CAREER ADVANCEMENT OR CAREER LADDERS IN THE STRUCTURE OF OUR AGENCY. BESIDES HIGH RECURITMENT STANDARDS IN THE CAREER SERVICES OF OTHER COUNTRIES, THOSE WHO PERFORM WELL CAN LOOK AHEAD TO THE POSSIBILITY OF AN AMBASSADORIAL APPOINTMENT AT THE LATER STAGES OF A CAREER OR OTHER SIGNIFICANT ADVANCEMENT IN THEIR FIELD OF EXPERTISE. THE CAREER NATURE OF THE SYSTEM IS PROTECTED, AND PROVIDES A MAJOR INCENTIVE FOR EXCELLENCE IN A HIGHLY COMPETITIVE AND PROFESSIONAL ENVIRONMENT.

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ONE STRENGTH OF THE U.S. SYSTEM IS THE JUDICIOUS MIX OF POLITICAL AND CAREER PERSONNEL IN INTERNATIONAL TRADE. THIS IS A STRENGTH TO BE RETAINED. HOWEVER, WE ARE STILL LEFT WITH THE PROBLEM OF HOW TO IMPROVE RETENTION. PROVIDING FOR ADVANCEMENT BEYOND THE AUSTR LEVEL IN OUR AGENCY COULD HELP TO SLOW DOWN THE ATTRITION RATE AND CONTRIBUTE TO THE RETENTION OF INDIVIDUALS FOR SEVERAL MORE YEARS. FOR THOSE WHO HAVE LEFT THE GOVERNMENT, IT MAY BE POSSIBLE TO PROVIDE REENTRY CAREER APPOINTMENTS TO TAKE ADVANTAGE OF A COMBINATION OF GOVERNMENT AND PRIVATE SECTOR EXPERIENCES.

RECOGNIZING THAT KNOWLEDGE IS POWER IN THE NEGOTIATION PROCESS, THE STUDY ALSO UNDERSCORED THE NEED FOR A COMPREHENSIVE SYSTEM TO RECORD, STORE, AND RETRIEVE DOCUMENTS DEALING WITH PAST NEGOTIATIONS, DECISIONS, AND TRADE POLICY ISSUES. THE EEC WAS MENTIONED AS BEING BETTER PREPARED FOR FUTURE NEGOTIATIONS BECAUSE OF THEIR DOCUMENTATION AND RETRIEVAL SYSTEM. SEVERAL OTHER COUNTRIES ARE SIGNIFICANTLY AHEAD OF US IN THIS REGARD. AS INDIVIDUALS LEAVE, THEY TAKE MUCH INSTITUTIONAL MEMORY WITH THEM. LACK OF SUCH HISTORICAL KNOWLEDGE AND PERSPECTIVE CAN WORK AGAINST US. TO IMPROVE THIS SITUATION, IT WILL BE NECESSARY TO LOOK AT THE INSTALLATION OF A COMPREHENSIVE SYSTEM

OF DOCUMENTATION, STORAGE, AND RETRIEVAL AND TO DEVELOP STANDARDS FOR RECORDING ESSENTIAL INFORMATION.

PROVIDING THAT ADEQUATE RESOURCES ARE MADE AVAILABLE FOR INCREASED CONCENTRATION ON TRAINING, CAREER DEVELOPMENT AND DOCUMENTATION SYSTEMS, WE WOULD PROPOSE TO BUILD UPON THE RESULTS OF OUR STUDY BY THE FOLLOWING ACTIONS:

- o SEEK APPROVAL TO SECURE SPECIAL SALARY AND CLASSIFICATION STATUS FOR USTR, AND FOR DEVELOPING CAREER OPTIONS FOR THE PROFESSIONAL STAFF SUCH AS AMBASSADORIAL AND MINISTERIAL RANK POSITIONS. THESE MIGHT REQUIRE LEGISLATION TO BETTER ACHIEVE THE GOAL OF RETENTION.

- o REEXAMINE AND ESTABLISH STRONG ENTRANCE AND MID-LEVEL COMPETENCIES FOR PROFESSIONALS IN LIGHT OF AGENCY RESPONSIBILITIES AND COMPETENCIES NEEDED BY LEAD NEGOTIATORS.

- o DEVELOP AND IMPLEMENT A LONG RANGE (3 TO 5 YEARS) PROFESSIONAL DEVELOPMENTAL PROGRAM. THIS WOULD INCLUDE AN IN-DEPTH EXAMINATION OF EXECUTIVE DEVELOPMENT PROGRAMS INSTITUTIONALIZED BY THE EEC AND OTHER TRADE COUNTRIES.

- o DETERMINE THE SIGNIFICANCE TO NEGOTIATORS OF LANGUAGE FLUENCY AND OF KNOWLEDGE OF THE CULTURAL BACKGROUND OF COUNTRIES TO BE DEALT WITH IN THE NEGOTIATIONS PROCESS, AND PROVIDE APPROPRIATE TRAINING.

- o INSTITUTE A MORE VIGOROUS ASSESSMENT PROGRAM FOR PERFORMANCE.

- o DEVELOP SPECIFICALLY DESIGNED IN-HOUSE SEMINARS ON POLICY ISSUES AND NEGOTIATION PROCESSES FOR USTR STAFF, SUPPORT ENROLLMENT OF USTR STAFF IN INTERNATIONAL TRADE COURSES AND PROGRAMS, DESIGN AN ENHANCED ORIENTATION AND DEVELOPMENT PROGRAM FOR ALL NEW STAFF AND ESTABLISH A MENTOR/ADVISOR PROCESS FOR ALL PROFESSIONAL EMPLOYEES.

- o INVESTIGATE THE FEASIBILITY OF A COMPREHENSIVE, PROFESIONAL DOCUMENTATION SYSTEM FOR RECORDING, STORING, AND RETRIEVING INFORMATION BASED UPON NEEDS WITH THE GOAL OF IMPROVING INSTITUTIONAL MEMORY.

MR. CHAIRMAN, WE HAVE FOUND THIS INVESTIGATION TO BE VERY INFORMATIVE AND WORTHWHILE. WE APPRECIATE AND SHARE YOUR CONCERN AND SENATOR LONG'S THAT THIS COUNTRY PROVIDE NECESSARY SUPPORT FOR

ITS TRADE EXPERTS AND NEGOTIATORS - SO THAT WE CAN EFFECTIVELY MEET (AND BEAT) ALL COMPETITION, WITH A CADRE OF NEGOTIATORS WHO ARE THE BEST IN THE WORLD. WHATEVER ADDITIONAL STEPS WE TAKE WILL BE A FUNCTION OF AVAILABLE RESOURCES. WE BELIEVE THAT THE CONCERNS WHICH YOU RAISED ARE SIGNIFICANT, LEGITIMATE ONES IF WE ARE TO CONTINUE AS A PREMIER, FIRST CLASS AGENCY AS ENVISIONED BY THE CONGRESS.

I WOULD BE PLEASED TO RESPOND TO YOUR QUESTIONS.

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Attachment 1

Comparative Pay Study

A recent study by the Netherlands Government identifies the relative compensation for staff, of various countries engaged in international trade activities. Pay comparisons are very difficult to make. This study, however, simplifies the comparison by indexing the salary scales of a number of governments, as corrected to the cost of living in the countries cited.

The following table indicates that the EEC and a number of other European countries have salary scales considerably above that of the Netherlands. This should be coupled with the fact that U.S. salaries run somewhat below that of the salary scale for the Netherlands. It indicates just how far behind our international counterparts we are with respect to compensation.

Index of Comparative Salaries

International Trade Organizations
(100 = Netherlands Salary Levels)

	Director*	First Secretary**	Mid-Level Staff***
EEC Commission	240	215	195
Germany	155	120	135
France	130	90	90
Luxembourg	110	120	145
Belgium	100	90	110
Netherlands	100	100	100
United States (estimated)	90	90	90
Italy	80	60	80

*USTR level
**GS-15 and above levels
***GS-14-15 level

Mr. WHITFIELD. On the other project that we have spent some time on, it is a little longer statement. I think, rather than trying to summarize it, if I could take a few minutes and go through it, it would provide some food for thought. I am reading from excerpts from the executive summary that we have. The USDA Graduate School and their personnel did the study and are in the process of completing the final report. When we get that, we will send copies to you and your staff.

What I think might be a good idea would be, after you and your staff have a chance to look at it, if the two staffs could get together with us and explore what might be some real practical options that we may take a look at.

To follow up on the request made by this committee and particularly yourself and Senator Long, we initiated a study which addressed a number of concerns. It is interesting to note that over 100 individuals were interviewed including current USTR staff, former U.S. Trade Representatives and negotiators, labor union representatives, congressional staffs, academics, authors of books and courses on negotiations, heads of senior staff personnel of several permanent foreign missions, senior officials of the GATT, and faculty of the Graduate Institute of International Studies in Geneva. The results can be summarized as follows:

USTR staff is regarded both here and abroad as being of high caliber and knowledgeable.

Lack of personnel continuity does hinder U.S. trade policy, reduces institutional memory, and impairs the effectiveness of our negotiations.

Retention of Government personnel in the international trade field can be increased to some degree. It is much more of a problem for us here in the United States than it is for other countries.

Current U.S. pay scales and fringe benefits are prime factors which contribute to turnover and lack of continuity. Compensation in the United States falls significantly below those of a number of other countries.

The private sector market in the United States for qualified individuals in Government institutions far exceeds that of other countries.

Negotiators are trained not born. Negotiation requires a knowledge of techniques and actual negotiation experience.

A comprehensive 3- to 5-year development program for USTR staff would enhance the strength of individual negotiators. Such developmental programs are important functions in most of the countries which we contacted and are institutionalized to a greater degree with larger investments of resources.

The United States is in a strong position regarding academic degree programs, concentrations and availability of in-service training.

Although it would require considerable resources, USTR should have an enhanced capability to record, store, and retrieve documents dealing with precedents, decisions, and past negotiations.

Turnover of top-level, highly experienced staff at USTR continues. Just since last July, we have lost 3 out of 10, or 30 percent, of our senior career managers to the private sector, one of whom was our Senior Assistant for Bilateral Affairs. This is a much higher

than usual attrition rate, but does confirm the need for action identified by the study. These individuals were all members of the Senior Executive Service and represented an average of 24 years of Government service and an average of 7 years of experience with USTR. Knowledge of past practices, laws, customs, and strong personal relationships developed over multiple negotiations and situations contribute directly to effective negotiations. Given the nature of the negotiation process, continuation of such turnover is most undesirable and will work against us.

The private sector market for USTR and other Government staff far exceeds that of other countries. It is a unique, additional obstacle in achieving staff stability and continuity. There is a definite willingness of companies to invest in the kinds of specialized knowledge and talent possessed by members of our and other staffs. The attraction of higher salaries and better fringe benefits is difficult to resist.

I guess what we are saying in essence is that major companies and corporations and academic institutions take the talent that we trained and the benefit of their experience and then put it to their use. These are the major causes for departure. Also, and significantly, top staff leave because of lack of further opportunity in career ladders and decreasing work challenges.

This situation is in direct contrast to the results of our investigation of other countries. Retention of personnel is not a serious problem for other countries or international trade institutions. Salaries and related compensation are significantly higher in the European Economic Community and in many trading countries. We have attached a chart here that shows a study that put us, quite frankly, at next to the bottom in terms of comparable compensation. This is especially true for lead negotiators. The critical positions for USTR are the Assistant U.S. Trade Representatives and attorneys, technical and policy experts. In this group lies our opportunity for continuity and policy strategy and to the evolution of negotiation expertise and, in turn, negotiating successes.

Compensation was the factor most frequently mentioned as a prime hindrance to longer career service in USTR. Any compensation system must be equitable, allow for effective recruitment and retention, and must be predictable. USTR must be in a better position to compete with others for high-quality personnel.

Just as an aside, I believe a number of our people in these professional positions were capped out for a period of 3½ or 4 years, where they went through with no increase in compensation at all.

Another personnel factor which was partially resolved with the increase in staff the agency was granted under the trade reorganization in 1979 was the evolution from an organization that relied heavily on ad hoc staffing arrangements to one with more permanent staff members. The agency must continue to mature as a permanent institution to develop fully a range of capabilities and to rely less on borrowed expertise. Since late 1979, total permanent personnel strength has not increased. Therefore, given new responsibilities and a heavy negotiating workload, there is again increased dependence on talent borrowed from other agencies, consultants, and contractors. Additional responsibilities such as the

Caribbean Basin initiative have been assumed by the agency and are stretching our staff very thin.

According to the individuals who were interviewed, negotiators are trained and developed; they are not born with the expertise. Expertise is a result of training, on-the-job experience, and observation of skilled negotiators. In most foreign countries career development is considered to be an important, appropriate, and long-term function and is better geared to emphasize developmental and training activities.

For example, Australia is reported as having a rather extensive commitment to career development of its trade staff. New employees are provided with a full 1-year training program included as part of an 18-month rotational series of assignments. Following successful completion of the 18-month program, staff are put into line positions. After that, promotions are based on individual performance. Policy staff are expected to move around the various policy and program divisions in the trade department. At the senior level, people can be expected to serve at least one 3-year term overseas.

Following the trade reorganization, USTR recognized the need for career development activities and established its first executive development plan which could be accomplished within available resources. Career development activities are planned for all professional staff and emphasize appropriate seminars and courses, developmental activities both within and outside the agency, and long-term training. Professional counseling services have also been provided for the staff to insure that our money is being spent in the best possible way.

Our investigation has revealed that we need to do more in this area. The importance of international trade justifies larger investments to more finely tune competencies of the staff and a deeper institutional commitment to this. As we move to institutionalize career development, we would concurrently look at existing standards for entry and midlevel professionals, lead negotiators, and AUSTR positions and to measure these against organizational needs.

An examination of formal and other training resources available in several European countries revealed that the United States is in a strong position as far as degree programs, concentrations, and in-service training is concerned. We must take advantage of these educational resources and work continually toward improving skills.

Based on our interviews, a number of U.S. schools were identified which have effective graduate programs including mid-career programs in international business and international studies with an emphasis on international trade and economics. Based on interviews with foreign representatives, there are a number of good graduate programs in Europe including the Graduate Institution in Geneva, the University of Paris, and Manchester School of Business, and the London School of Economics. However, they do not appear to be superior to U.S. programs.

Another area that merits consideration is career advancement or career ladders in the structure of our agency. Besides high recruitment standards in the career services of other countries, those who perform well can look ahead to the possibility of an ambassadorial

appointment at the later stages of a career or other higher significant advancement in their field of expertise such as the title of minister. The career nature of the system is protected and provides a major incentive for excellence in a highly competitive and professional environment.

One strength of the U.S. system is the judicious mix of political and career personnel in international trade. This is a strength to be retained. However, we are still left with the problem of how to improve retention. Providing for advancement beyond the AUSTR level in our agency could possibly help to slow down the attrition rate and contribute to the retention of individuals for several more years. For those who have left the Government, it may be possible to provide reentry career appointments to take advantage of a combination of Government and private-sector experiences.

Recognizing that knowledge is power in the negotiation process, the study also underscored the need for a comprehensive system to record, store, and retrieve documents dealing with past negotiations, decisions, and trade policy issues. The EEC was mentioned as being better prepared for future negotiations because of their documentation and retrieval system. Several other countries are significantly ahead of us in this regard. As individuals leave, they take much institutional memory with them. Lack of such historical knowledge and perspective can work against us. To improve this situation, it will be necessary to look at installation of a comprehensive system of documentation, storage, and retrieval and to develop standards of recording essential information.

Providing that adequate resources are made available for increased concentration on training, career development, and documentation systems, we would propose or suggest to build upon the results of our study in the following ways:

No. 1, seek approval to secure special salary and classification status for USTR and for developing career options for the professional staff such as ministerial and ambassadorial rank. These might require legislation to better achieve the goal of retention.

Reexamine and establish strong entrance and mid-level competencies for professionals in light of agency responsibilities and competencies needed by lead negotiators.

Develop and implement a long-range, for instance, 3- to 5-year professional development program. This would include an in-depth examination of executive development programs institutionalized by the European Community and other trade countries.

Determine the significance to negotiators of language fluency and of knowledge in the cultural background of countries to be dealt with in the negotiating process and provide appropriate training.

Institute a more vigorous assessment program for performance. Develop specifically designed in-house seminars on policy issues and negotiation processes for USTR staff, support enrollment of USTR staff in international trade courses and programs, design an enhanced orientation and development program for all the new staff, and establish a mentor-adviser process for all professional employees.

Investigate the feasibility of a comprehensive professional documentation system for recording, storing, and retrieving information based upon needs with the goal of improving institutional memory.

Mr. Chairman, we have found this investigation to be very informative and worthwhile. We appreciate and share your concern and Senator Long's in this area, so that we can effectively meet—and beat—all competition, with a cadre of negotiators who are the best in the world. Whatever additional steps we take will be a function of available resources. We believe that the concerns which you raised are significant, legitimate ones if we are to continue as a premier, first-class agency as envisioned by the Congress.

I would be pleased to respond to your questions.

COMPARATIVE PAY STUDY

A recent study by the Netherlands Government identifies the relative compensation for staff, of various countries engaged in international trade activities. Pay comparisons are very difficult to make. This study, however, simplifies the comparison by indexing the salary scales of a number of governments, as corrected to the cost of living in the countries cited.

The following table indicates that the EEC and a number of other European countries have salary scales considerably above that of the Netherlands. This should be coupled with the fact that U.S. salaries run somewhat below that of the salary scale for the Netherlands. It indicates just how far behind our international counterparts we are with respect to compensation.

INDEX OF COMPARATIVE SALARIES, INTERNATIONAL TRADE ORGANIZATIONS

[100=Netherlands salary levels]

	Director [1]	First secretary [2]	Midlevel staff [3]
EEC Commission	240	215	195
Germany	155	120	135
France	130	90	90
Luxembourg	110	120	145
Belgium	100	90	110
Netherlands	100	100	100
United States (estimated)	90	90	90
Italy	80	60	80

[1] USTR level.
[2] GS–15 and above levels.
[3] GS–14–15 level.

What I would like to suggest, if I could, is, after your staff has a chance to take a look at this, we might get a working group together and see what direction we could go in.

Senator DANFORTH. Well, you're on. That is an excellent idea.

Do you share my view that this is an extraordinarily important area to explore?

Mr. WHITFIELD. Yes, sir. I had my first opportunity to be in Geneva a couple of weeks ago with Mike Smith for the GATT ministerial meeting. I met with Bill Kelly and several others there. I was really stunned to find, for instance, that some people have been a member of that organization assigned there for 20-plus years. They all have varying degrees of responsibility in day-to-day activity with that organization or any international organization, but 15 or 20 years on the job is not something that you can pick up in 18 months or 2 years.

Senator DANFORTH. We are talking about not everybody who is at USTR. We are talking about an identifiable group of people who are basically negotiators. Is that what you are talking about?

Mr. WHITFIELD. Yes, sir, mainly the AUSTR, the Assistant USTR level, and the Deputy Assistant USTR level, and in some instances, I think, it would be very helpful for the GS–14, GS–15 level that are technical experts, attorneys, or, say, geographical experts like in Japan or nonmarket countries or something like that——

Senator DANFORTH. The people who actually participate in the negotiations, make the deals, follow them year in, year out.

Mr. WHITFIELD. Yes, sir.

Senator DANFORTH. How many people in that category would you estimate there are at USTR?

Mr. WHITFIELD. Thirty-five to forty.

Senator DANFORTH. One possibility would be to say: Well, this is an identifiable group of 35 or 40 people in your office, and that is what we are talking about. Another way to view it would be to say that our country is involved in a whole series of negotiations, some in the trade area, some in the arms control area, on and on and on; and it should be a kind of interchangeable body of negotiators, a negotiating team which could float.

Do you have any view as to whether we should be concentrating solely on trade negotiators? Or should we be talking about a corps of professional negotiators who could work almost on call for one agency or another?

Mr. WHITFIELD. I really would not know how to answer that. The only experience I have had has been at USTR with Ambassador Brock in the trade area. This is where the study was geared to. To be able to take a guess as to whether or not arms control negotiators could benefit from a similar type of program or interchangeable program, I do not know. I think it would be something that we could take a look at.

Senator DANFORTH. Another way to handle the problem would be, as you noted in your comments, we should rely less on borrowed expertise. Another approach would be to rely exclusively on borrowed expertise; that is, to hire people on an as-needed basis who are negotiators or even on almost a retainer basis like a client hiring a law firm.

Mr. WHITFIELD. I think when you go through an MTN process, if you go through a period of 1½ or 2 years or 2½ years of intensive multilateral negotiations, you have to expand the expertise in a very quick manner, bring in all sorts of people from different places. But what we were trying to get at is an ongoing, business-like way of running our negotiations. For instance, we have 22 people on detail now. I think all but one is at the professional level. Nine of them are nonreimbursable from other departments or agencies. The question might be: Well, why would someone give up a GS–14 or GS–15 professional person to us and pay the cost for it? Well, they come to us for 1½ years, and they are going to get back a better person than what they sent over or at least someone who has a wider range of expertise. So, it is an advantage to the host agency.

What I think we need to take a look at is the need to do an ongoing job and separate that from those peak periods of intensive

multilateral negotiations. If there is a need for an ongoing job to be done, it would be helpful if we had the permanent resources to rely on. If it became feasible, then we could do some changing around within our own structure from a policy side to a negotiating side or from one geographical region to another so that they could expand their expertise.

Take 22 people out of a professional staff of 51 that are on detail. Suppose particularly it is those that are on nonreimbursable detail. The host agency suddenly decides that we really need Mary Black back here quickly. Then you lose a resource.

What we are trying to say is that, if there is a need to do those jobs, which there is, on an ongoing basis, it would be very helpful if we had them in a permanent capacity so that we knew where we were going and could count on those resources day in and day out.

Senator DANFORTH. It is easy to give it a few minutes' thought every now and then and have all the answers to it. It seems to me the Foreign Service is something of a model. That is, my guess is that most people who decide they want to go into the Foreign Service do not make the decision on the basis of money alone. They make the decision on the basis that it is a very interesting life. It will give them very interesting experience. The Foreign Service is an identifiable group of people. There is a kind of esprit de corps and pride in being a part of it. And it is a career. It is leading somewhere. Therefore, you can find a young person, somebody 20 years old or so, and say: Take the exam; if you pass it, you can go to Washington; there is a training program; then you will be posted for a couple of years in some interesting part of the world and then on to another place. It is a career, and maybe you will be an ambassador someplace.

There is a goal in mind, but there is a sense of doing something important.

If we were to create an identifiable group of professional negotiators and hire x number a year from wherever, law school or business school or wherever you get such people, just the finest people you could find and say: Look, this is a career, and you're going to really learn the art, you are going to learn whatever language skills are necessary, you are going to travel, you will be posted in Geneva or wherever for periods of duty; this is the kind of work that it entails; there is the possibility eventually of transferring into some ambassadorial type job. I don't know, but that notion that a young person would have that, if he or she is really good, really competent in school, there is a recuitment system going. People are going out and interviewing. There is a training program and identification, a sense of belonging to a team that is going to be there for decades to come. So, when the person is 50 or 60 years old, he or she is really going to have an interesting job that was begun in the twenties.

I would think that would be an exceptionally attractive opportunity to offer bright younger people.

Mr. WHITFIELD. It certainly would be the optimum if you could design a structure and perpetuate that esprit de corps, et cetera, for an extended period of time.

Senator DANFORTH. Yes, so there is not just the sense of, well, I've got a job now for 2 or 3 years but sometime I'm going back to

practice law somewhere or whatever. Instead, it would be: this is the life; this is something.

If you are interested in pursuing it, I am interested in pursuing it. I would really like to create something that is visible and tangible, something that says: Here is how we are going to do this. If you are, I certainly am. I like your suggestion about the staffs meeting.

Mr. WHITFIELD. In any structure or institution or whatever, there is always room for improvement; but I think in something like this there is room for improvement, and it can be fun, too, and have a strong impact.

Senator DANFORTH. Thank you very much.

Mr. WHITFIELD. Thank you.

Senator DANFORTH. The next witness is William Alberger, Chairman of the International Trade Commission.

STATEMENT OF HON. BILL ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, ACCOMPANIED BY MICHAEL J. CALHOUN, VICE CHAIRMAN; PAULA STERN, COMMISSIONER; ALFRED E. ECKES, COMMISSIONER; EUGENE J. FRANK, COMMISSIONER; VERONICA A. HAGGART, COMMISSIONER; LORIN L. GOODRICH, DIRECTOR, OFFICE OF ADMINISTRATION; AND RICHARD D. ARNOLD, DIRECTOR, OFFICE OF FINANCE AND BUDGET

Mr. ALBERGER. Mr. Chairman, I am pleased to be here to discuss the commission's fiscal year 1983 budget request.

I am accompanied today by the entire Commission and by our Director of Administration, Lorin Goodrich, and our Director of Finance and Budget, Richard Arnold.

We are in an unusual position this year. We put our budget request together in much the same way that we did for fiscal year 1982. We assumed last summer, since our request for 1982 had been approved by the Ways and Means Committee, by the full House, and by this committee that we would receive near that amount. Unfortunately, we have been forced to operate on a continuing appropriation at essentially the fiscal year 1981 level of funding.

We prepared a budget that concentrated on improved utilization of resources and determined not to request growth. However, we have had to curtail hiring, travel, and training in order to operate this year at last year's level even in the face of 92 unplanned-for cases that were filed in January of this year on imported steel. The steel cases involve products approximating 70 percent of overall domestic steel production and an even larger percentage of steel imports from the European Community. The Commission voted to continue 38 of these investigations involving 89 percent of the volume of imports under consideration and terminated 54 cases involving only 11 percent of that volume.

We concluded those 92 cases within the 45-day time limit imposed by the Trade Agreements Act of 1979 but not without a herculean effort by our staff. Typical of the problem of learning we had to operate in fiscal year 1982 on a continuing resolution at 1982 levels was the situation with our steel experts. We had to tem-

porarily freeze employment shortly after losing two steel experts to Commerce and one to retirement in order to hold down expenditures. We shifted resources and tapped those individuals with the capacity to blend with our remaining steel experts to form a solid investigative team for these investigations. The staff that produced the steel reports really deserves special recognition for their efforts. It is only through such dedication that we are able to successfully operate and make all our deadlines.

Sometimes the Government employee seems to be the scapegoat for all the economic problems of the country. This is unfortunate, for I believe that public service remains the most noble calling. I wish there were more ways to adequately reward our fine staff.

I talked about an expanded caseload last year when I appeared before you, and expanding it was. But in fiscal year 1982 it has reached the point where we now expect double the load from fiscal year 1981. We believe firmly that fiscal year 1983 will equal fiscal year 1982. There seems to be a slight lag in a recession before the flood of new cases arise. We are now in the flood.

With the level of statutory investigations up sharply, we are also experiencing a rapid increase in requested section 332 investigations, with several more apparently soon to arrive from the President. In addition to the conversion of the tariff schedules of the United States to the harmonized system, a massive 2-year project, we have 332's on softwood lumber, potatoes, straw headware, reports on the U.S. auto industry, printed circuit boards, and I understand we will soon have requests on performance requirements and several sectoral studies related to United States-Mexico negotiations.

Our responsibilities are not contracting like other agencies that are receiving budget cuts. We continue to receive more requests for assistance, in large part a recognition of our ability to perform needed research and investigation and produce factual and unbiased work product. I welcome that and have openly sought such recognition in order that we avoid excessive duplication of talents and functions in the international trade operations of the Government. We should attempt to conserve precious resources, and that certainly includes tax dollars. However, if we are to continue to perform with a level of expertise that this committee expects us to have, we simply must be fully funded at our budget level. You recognized our plight last year and approved our request. We will survive this year on the continuing resolution, providing our pay supplemental makes it through. But the services would probably decline in fiscal year 1983 if we have to make it again on the fiscal year 1981 level.

In the fiscal year 1982 authorization bill which passed the full House, the U.S. Trade Representative's office sought and obtained additional language allowing reimbursement for travel and acceptance of gifts. The language was added for USTR in the House by the Ways and Means Committee and in this committee coverage was expanded to include the ITC as well. For 1983 the Ways and Means Trade Subcommittee has included the same language for the ITC.

We believe such a provision makes sense and could save Government moneys. We would, of course, administer it so as to avoid

even the appearance of conflicts of interest. We request that we be included in such a provision in the fiscal year 1983 authorization.

We also suggest that this committee consider an amendment to 19 U.S.C. 1337 to provide a 60-day limit for appeals to the Court of Customs and Patent Appeals from final commission determinations and unfair import trade practice investigations. This matter is detailed fully in my prepared remarks. Since I have departed substantially from those, I would ask that they be entered into the record as if given.

Senator DANFORTH. Without objection, your prepared statement will be inserted.

[The prepared statement of Hon. Bill Alberger follows:]

STATEMENT OF BILL ALBERGER, CHAIRMAN, UNITED STATES INTERNATIONAL TRADE COMMISSION BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, COMMITTEE ON FINANCE, U.S. SENATE, April 14, 1982

Mr. Chairman and members of the Subcommittee, I am pleased to meet with you to discuss the Commission's fiscal year 1983 budget request. I am accompanied today by our Vice Chairman, Michael Calhoun; Lorin Goodrich, our Director of Administration; and Richard Arnold, our Director of Finance and Budget. Other staff members are also present.

In developing the budget request for fiscal year 1983 the Commission examined its needs with special care. Despite the substantial growth in demands on the Commission we have again made a deliberate effort to concentrate on improvements in utilization of resources and not request any growth. The Commission's fiscal year 1983 budget request of $19,737,000 represents an increase of $934,000 over the fiscal year 1982 revised request of $18,803,000, including the supplemental for pay increases. This is a 5 percent increase, of which 96 percent results from built-in increases in employee compensation, inflation and General Services Administration space rental increases. The balance of the increases requested do not represent growth in either program or operating levels but are attempts to institute administrative improvements to maintain and/or improve Commission operations within existing resources. These include the conversion of the current manual TSUSA publication system to an automated system, the implementation of an in-house accounting system and acquiring additional word processing equipment. These improvements will permit the Commission to meet increasing demands without staff increases or commensurate cost increases in other areas. Automation of the publication of the TSUSA will enable the Commission to better serve the international trade community through a reduction in the

size of the publication with an accompanying cost reduction, faster publication of Congressional or Presidential changes to the tariff schedules, and electronic access to the TSUS. In addition, automation should reduce the expenditure of several thousand hours of proofreading each year. Our own computer (which was approved by our appropriation committes for purchase from fiscal year 1981 funds and due to be installed later this year) will greatly enhance many Commission functions and provide better control of sensitive data, in addition to expanding capabilities in data-gathering, processing, and information sharing. Implementation of our own financial management information system will provide management better control over agency resources and should lead to future cost savings. These improvements will be made without additional costs to the Commission, once the systems are initially installed.

A major continuing activity is our work on the Harmonized System, both in the continuing negotiations in Brussels and in converting the TSUSA into the nomenclature structure of the Harmonized System. We are under a Presidentially imposed June 1983 deadline to complete all conversion activities. This includes publishing the 97 chapters of the Harmonized System, holding public hearings on them, and preparing a report to the President on the probable economic effect of the conversion. We have published 24 of the 97 chapters and held the first public hearings March 29th and 30th, 1982. Additional chapters are scheduled to be published in late 1982 and early 1983 with the Commission holding public hearings after the chapters are released.

The Commission is heavily involved in preparation for the General Agreement on Tariffs and Trade (GATT) Ministerial meeting. The U.S. goal will

be to obtain adoption of a GATT work program for the 1980's which will include a meaningful implementation of all of the MTN codes, completion of the unfinished negotiations on safeguards and commercial counterfeiting, negotiation of extended coverage of the Government Procurement Code, further negotiations regarding the Civil Aircraft Code, a review of the Standards Code, and constructive work on trade in services and high technology goods, trade-related investment issues, agriculture trade, and the participation of developing countries in the trading system. The Commission must be prepared to provide full support to the U.S. Trade Representative in these activities.

The demands for Commission services are increasing, and we must be able to continue to provide timely and professional assistance when called upon. The Commission is currently in the midst of the largest investigative caseload in its history. Page 7 of our budget justification summarizes the workload by investigation and shows the significant rise in workload. During FY 1981 the Commission completed 98 investigations and worked on 48 more for a total caseload of 146. During this fiscal year we expect the total workload to nearly double to a level of 274 and for that level to remain during FY 1983. As of April 9th, in FY 1982, we have completed 155 cases. In the antidumping and countervailing duty area, in addition to the normal workload and the remaining requirement to complete the 30 transition cases on which we have been waiting for data from the Commerce Department, the Commission received 92 cases on imported steel in January of this year. These cases, filed by seven U.S. steel companies, involve approximately 70 percent of domestic steel production, and an even greater percentage of steel imports from the European Community. As you know, the Commission voted to continue 38 investigations involving 89 percent of the volume of steel imports under investigation and

terminate 54 cases, involving only eleven percent of the volume of imports. The Commission will be required to conduct final investigations on each of the continued cases when they are returned by the Department of Commerce later this year.

We have also provided for increased emphasis on unfair import practice investigations, as filings have rapidly increased during the current fiscal year. This appears to be due to the fact that ITC procedures are more expeditious than the courts, plus often result in a more effective remedy. We expect this increased caseload will continue not only in patent cases, but also in trademarks and copyrights.

The Commission has recently completed Section 332 investigations or special studies for the Congress and the President concerning jewelry, import trends in TSUS items 806.30 and 807.00, petrochemical industries of North America, trade patterns of North and Central American countries, and Generalized System of Preferences for the Peoples Republic of China. We are currently conducting several additional investigations including three requested by the Congress: conditions relating to the importation of Canadian softwood lumber; international trade in printed circuit boards; and monthly reports on the U.S. auto industry; and two requested by the President: status of fall-harvested Potatoes; and Probable Economic Effect of the Continued Designation of Certain headwear of Straw for Duty Free Treatment. We anticipate several additional Presidential requests this fiscal year on such items as automobiles and automobile parts, petrochemicals, integrated computer circuits, and performance requirements for U.S. firms establishing operations in other countries. In addition, the Commission on its own motion completed a study on Recent Trends in U.S. Countertrade, and is currently working on studies which include: Emerging Textile Exporting Nations, the

Relation of Exports in U.S. Service Industries to Merchandise Exports, and the Effects on U.S. Firms of Expanding Foreign Petrochemical Industries. These latter investigations were initiated following discussions with authorizing Committee staff and USTR staff, where interest in the subjects involved were indicated.

The Commission is required by the Trade Act of 1974 to provide Congress with an annual report on the operations of the trade agreements program and a quarterly report on U.S. trade with nonmarket economy countries. To support these reports and other expanded responsibilities the Commission has developed an active trade monitoring system. This system, in addition to identifying probable trade issues by automatically detecting unusual trade movement, has the flexibility to meet new trade monitoring requirements as they develop. We are currently monitoring U.S. trade in motor vehicle parts and products under the Civil Aircraft Code, and are providing quarterly reports on significant shifts in U.S. trade. During fiscal year 1981 we provided a special report on the U.S. trade balance with Japan for the United States Trade Representative.

The Commission must continue to have the flexibility to shift resources between programs in response to fluctuations in workload demands, rather than increasing or decreasing staff as projects are started or completed. Those 92 steel cases were filed in January, all at one time. We actually had 2 vacancies on our steel staff at that time, but shifted resources to handle the incredible workload. The staff who produced the reports in those investigations really deserve special recognition for their efforts. It is only through such dedication that we are able to successfully operate and make all our deadlines. Sometimes the government employee seems to be the scapegoat for all the economic problems in the country--I believe it remains the greatest public service, and wish there were ways to more adequately reward our fine staff.

The Commission is operating under the Continuing Resolution for Fiscal Year 1982, at $17,200,000, which is below the fiscal year 1981 funding level of $17,215,000. To meet our workload demands we have had to take various economy measures to assure that level is not exceeded. We have, of course, limited our staff to a level below that authorized, but we also severely cut back on nonpayroll costs so that we could temporarily maintain a sufficient level of staffing. This was done in order to maintain the staff at a level necessary for current and future workload requirements. We had hoped that when our appropriation bill was considered on its merits, our funds would be restored to the requested level, adjusted for savings already taken. In this way we had hoped to avoid mortgaging the future through a temporary, but harmful, staff reduction. Should a reduced funding level continue throughout FY 1983, staff reductions will be required below current levels and the Commission may encounter serious problems meeting all our deadlines in investigations and other mandated work, and the overall quality of our work product may suffer.

In the FY 1982 authorization bill, which passed the full House, USTR sought and obtained additional language allowing reimbursement for travel and acceptance of gifts. The language was added for USTR in the House by the Ways and Means Committee, and in this Committee coverage was expanded to include the ITC as well. For FY 1983, our Ways and Means Subcommittee has included this same language for the ITC. We believe such a provision makes sense and could save government monies. We would, of course, administer it so as to avoid even the appearance of conflicts of interest. We recommend that we be included in such a provision in the FY 1983 Authorization.

We aslo recommend that this Committee consider an amendment to 19 U.S.C. § 1337 to provide a sixty-day limit for appeals to the Court of

Customs and Patent Appeals from final Commission determinations in unfair import trade practice investigations. Prior to passage of the Customs Courts Act of 1980 section 337(c) provided for judicial review of Commission determinations "in the same manner and subject to the same limitations and conditions as in the case of appeals from decisions of the United States Customs Court." The CCPA interpreted this language to provide a sixty-day time limit identical to that provided for review of decisions by the Customs Court. This language, however, was deleted when section 337(c) was revised by the Customs Courts Act.

In a recent decision, SSIH Equipment, S.A., v. United States International Trade Commission, the CCPA ruled that, because of the deletion of the provision, there is now no fixed time limit on appeals from final determinations of the Commission. I have appended to my written statement a draft of an amendment to section 337(c) providing it.

Finally, I want to bring you up to date on the condition of the Commission's main building which has been of continuing interest to the Committee. During the past year major repairs have been underway to stop the roof from leaking, but the problem still exists and we are attempting to work with the General Services Administration (GSA) to complete the job; and funds are apparently available for it. Work has begun on a major overhaul of the inner courtyard which we use for carpool parking and which the Postal Service uses for its trucks. Additionally, it is expected that during this calendar year we will have increased electrical power coming into the building which will be an improvement, but there will still exist a power distribution problem. This latter problem, as well as the need for other renovation work, is still present and GSA appears to have no immediate plans for such work which would make the building suitable for efficient office operations. It is our understanding that an overall renovation prospectus will have to be developed and ultimately sent to the Congress. We are pursuing this matter with GSA and will not hesitate to ask the Committee for appropriate assistance. Again I thank the Committee for its help in the past.

Let me close with a personal note. I have been a member of the Commission for four and a half years, and am now the senior member in terms of service. I have seen five budgets developed and presented, and believe each has been leaner than the last. Yet, I firmly believe our work product has steadily improved. Our responsibilities expanded during the MTN and with the

passage of the Trade Agreements Act of 1979. Our authorized staff level in this budget is only 12 more than in FY 1976 and is the same as the approved level for FY 1980, FY 1981 and FY 1982. We have done more with less each year, but I caution you that such apparent contradictions cannot continue much longer. We are getting stretched too thin. We cannot make it at FY 1981 levels through FY 1983 without a very apparent decline in services and quality. This budget is lean, and we need every penny of it if we are to maintain the level of quality and service you demand and have every right to expect.

I thank you for your assistance.

ATTACHMENT

§ 1337. Unfair Practices in import trade

. . . . .

Determinations; review

(c) The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of Title 5. All legal and equitable defenses may be presented in all cases. Any person adversely affected by a final determination of the Commission under subsection (d), (e), or (f) of this section may, within sixty days after the date of publication of notice of the determination in the Federal Register, appeal such determination to the United States Court of Customs and Patent Appeals for review in accordance with chapter 7 of Title 5. Notwithstanding the foregoing provisions of this subsection, Commission determinations under subsection (d), (e), and (f) of this section with respect to its findings on the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of Title 5.

Mr. ALBERGER. Let me close with a personal note. I have been a member of the Commission for 4½ years and am now the senior member in terms of service. This is my last appearance before you as chairman presenting the budget of the Commission. I have seen five budgets developed and presented and believe each has been leaner than the past. Yet, I firmly believe our work product has steadily improved. Our responsibilities expanded during the MTN and with the passage of the Trade Agreements Act of 1979. Our authorized staff level in this budget is only 12 more than in fiscal year 1976 and is the same level as the approved level for fiscal year 1980, 1981, and 1982. We have done more with less each year, but I caution you that such apparent contradictions cannot continue much longer. We are getting stretched too thin. We cannot make it at fiscal year 1981 levels for 1983 without a very apparent decline in services and quality.

I believe our work in making well-considered determinations in major trade cases solely on the merits has been a valuable service to the Congress and the Nation. The existence of this agency is essential to our continuing promotion of transparency and rule-of-law decisionmaking in trade disputes.

This budget is lean. We need every penny of it if we are to maintain the level of quality and service you demand and have every right to expect.

Thank you for your assistance. I would be happy to answer questions.

[William Alberger's responses to question by Senator George Mitchell follows:]

QUESTIONS FOR WILLIAM ALBERGER, CHAIRMAN OF THE INTERNATIONAL TRADE COMMISSION, FROM SENATOR GEORGE MITCHELL

Recently I introduced a bill, S. 2193, that is intended to increase access to the antidumping and countervailing duty statutes for many firms that lack the financial resources to use the import relief mechanisms adequately.

Two of the changes that would be made by the bill would affect the ITC. The first would change the standard used in the preliminary determination of injury in antidumping and countervailing duty cases. This is intended to reduce the costs to domestic petitioners of providing information to the ITC and of devoting additional legal resources at this stage of investigations. The second change would assign responsibility for judicial review to the Court of Customs and Patent Appeals, rather than the Court of International Trade. By giving this responsibility to an appellate court rather than a trial court, my bill would provide for a more efficient and less costly method of judicial review.

Would the ITC be able to administer S. 2193, as currently drafted, if it were enacted? Do you have any improvements to the bill that you would recommend? Are there any other aspects of antidumping and countervailing duty cases, in addition to the preliminary injury determination and judicial review, that could be changed to lower the costs to domestic petitioners?

RESPONSES OF THE INTERNATIONAL TRADE COMMISSION TO THE QUESTIONS OF SENATOR GEORGE MITCHELL

The proposed change to the standard used in the preliminary determination of material injury in antidumping and countervailing duty cases would not itself result in the costs of providing information to the Commission being reduced. Your remarks in the March 11, 1982, issue of the Congressional Record, however, indicate that the legislative history to the proposed change will suggest a change in the methodology used by the Commission in gathering information during preliminary

investigations. Changes in the conduct of Commission investigations could reduce costs for both petitioners and other participants. Decisions by interested persons to invest legal resources in preliminary investigations are not controlled by the Commission. The requirements that preliminary determinations be based on an administrative record and that the proceedings be subject to judicial review will govern the decisions of interested parties concerning their investment of legal resources. The administrative records of these preliminary investigations consist of the following items: (1) the petition; (2) any written submissions by any interested persons during the course of the investigation; (3) a transcript of a public conference held between interested parties and the Commission's professional staff; (4) responses to Commission questionnaires sent to domestic producers, importers, and domestic purchasers of both the domestically produced and imported products; and (5) post-conference briefs. Of these, only the costs of responding to Commission questionnaires are subject to the control of the agency.

Title VII of the Tariff Act refers to the impact of the imports under investigation on the domestic producers of "like products." The law, in turn, defines the term like product as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to investigation. . . ." This product orientation requires comparable statistics on a product-line basis for the Commission to analyze the impact of allegedly injurious imports on the petitioning U.S. industry. Official statistics of both imports and domestic output are rarely comparable or available on a product-line basis. Accordingly, the Commission has relied upon questionnaire surveys to develop the data.

The Commission could make preliminary determinations without the benefit of questionnaire surveys of the industry and the domestic markets for the products under investigation. The elimination of questionnaire surveys from preliminary investigations would substantially lessen the costs of participating in an investigation. On the other hand, Commission determinations would not be based upon reliable product-based statistics in the absence of the questionnaire surveys. There is one other significant trade-off in discontinuing questionnaire surveys. In those cases which are continued by the Commission's preliminary determination and are later returned to the Commission for a final material injury investigation, the experience from the preliminary questionnaire responses permits the Commission to focus the final investigation on those questions left unanswered after the preliminary determination. Should the Commission discontinue the use of questionnaires in preliminary investigations, it would be impossible to narrowly focus inquiries in final investigations. Again, the quality of information on which Commission determinations was based would be inferior to information currently relied upon. We note that questionnaires are vital during final investigations. They are the only practical means of gathering the information the Commission is directed to consider in reaching final determinations concerning material injury.

The proposal to transfer the judicial review of antidumping and countervailing duty investigations to the Court of Customs and Patent Appeals would not pose any particular problems for the Commission. The Commission would be able to administer S. 2193 as currently drafted and as explained in the remarks published in the March 11, 1982, issue of the Congressional Record. With the exception of the use of questionnaires discussed above, there are no other aspects of preliminary investigations which the commission could alter for the purpose of lowering costs. The cost of a petition is controlled by the petitioner. The more thorough a petition is, the more the petitioner will be able to influence the data and arguments considered by the Commission. In our view, the thoroughness of a petition should be best left to the discretion of a petitioner with the government retaining the authority to dismiss those petitions which do not set forth a credible claim for relief under the antidumping and countervailing duty provisions of the law. We also believe that the administrative record should contain any written views submitted by any interested persons in time for their consideration by the Commission is making its preliminary determination. This practice costs the government virtually nothing more than the cost of logging in the documents and circulating them to Commissioners and those staff assigned to the relevant investigations. The cost of a public conference varies. Interested parties often wish to be represented by counsel and often have to travel to Washington, D.C., to participate. Neither is requird by the Commission, and the agency encourages people who wish their views considered but do not wish to attend a conference in Washington to send a letter for inclusion in the record. Persons who do participate but do not want to purchase the transcript of the proceedings may refer to copies in the public files of the Commission's docket. With respect to post-conference briefs, they are merely a chance to respond to any new information which become available at the conference. Again, they are voluntary and, if submit-

ted, need not consist of anything more than a letter. The costs of providing these voluntary opportunities to participate is small when contrasted with the inability of interested persons to make their views known to the agency.

Senator DANFORTH. Thank you for your very candid and persuasive testimony.

I think you should know the high regard with which your Commission is held by members of this committee. I know that on a number of occasions among ourselves we have talked about you behind your backs, always favorably.

Mr. ALBERGER. Thank you.

Senator DANFORTH. Sometimes expression of appreciation is slow in coming from Members of Congress. You generally hear about the problems rather than the accomplishments, but those accomplishments are recognized by the members of this committee.

To what do you attribute the increased case load? Is it the economy? Is it concern for U.S. industries that feel threatened by imports? Is it the time limit of the 1979 act, just too fast? What is the problem? Or is it all of the above?

Mr. ALBERGER. I think there are some elements of all of the suggestions you made as to reasons. Clearly, the economy has a great deal to do with it. There are a number of industries that are suffering right now, partially because of import competition, partially because demand is down and interest rates are high. The economy simply is not moving. It has brought, I think, a number of industries before the Commission. Part of it may simply be a knowledge of how the Trade Agreements Act does work and that it is possible for industries that are suffering these kinds of problems to get some relief. Therefore, the word gets out and other industries come in.

As I indicated, there seems to be a slight lag when the economy goes bad before the cases show up. Some of that is natural. You have to be able to show that you are injured; so, you want to see the statistics yourself before you come before the Commission, hoping that you are going to be able to show that you are really injured. You want to know that you are first, so that requires you to be a little bit more hurting than you might otherwise need to be to prove your case.

We are certainly in a period now where there are lots of cases coming to us.

Senator DANFORTH. Do you think that those procedural changes in the 1979 law are workable or not?

Mr. ALBERGER. I think the time limits are barely workable. I think we have made them work for us but not without some close calls. I do not know whether Commerce has been quite as successful in making the time limits work. I think, in terms of what they have to do, it is even more impossible than our task. The time limits are very tight.

As we discussed last year at our authorization hearing, I become concerned at times when I hear that some industries feel it is too expensive to bring a case. They are too hurting to even afford what it takes to bring a case. I hear it on the other side as well. I think we have seen it in some cases where importer interests feel it is too expensive to defend. So, they will just take their chances. Maybe they do not even need to come in and present their arguments.

They will just try it because it costs too much to get proper representation and go through all the procedure.

Senator DANFORTH. Do you think we should take another look at what we did?

Mr. ALBERGER. I think it is worth a thorough reconsideration and a look at whether there may be some ways we can do the same thing in a slightly different fashion. I am not sure I have any necessarily good answers to how it would work better, but I think it is worthy of the attention of the committee and the staff.

Senator DANFORTH. Does anyone else have anything to add on any subject?

Mr. CALHOUN. Senator, you asked the question about our experience about the case load increase and the reasons for it. I certainly agree with everything the chairman said. I would just like to highlight that, in my assessment of it, I think a further factor is that increasingly U.S. industries are finding it in a very legitimate way difficult to compete on a world standard.

This is for a number of reasons, some not associated with their efforts and some associated with their efforts. I think what we see to some extent in the increasing case load is an effort on their part to find ways to buy time, find ways to equalize structural deficiencies that they have in competing with imports. I am not sure that our agency is the one that can address that problem in its root. We certainly can provide an environment within which they can buy time, but fundamentally addressing that problem is one that is certainly beyond our expertise and is one that I know this committee and the Trade Subcommittee in the other House has been attempting to address for some time.

Senator DANFORTH. Your job is to examine the causes and the effects of imports. How do you feel about the future? Do you think that we are on the skids? Do you think that the United States will be and can be competitive in the future? Or do you think that we have just had it and increasingly we will not be able to keep up?

Mr. CALHOUN. I think without a doubt the United States is capable of rising to the occasion. In my estimation, there is no industrial structure in the world that is more capable than ours. I think for a number of reasons we have not been attentive to keeping the machine oiled. There have been other countries that have been more concerted in the application of social energy and political effort to addressing the problem of industrialization.

Having said that in the most optimistic outlook, I have to say also that I think we are at a turning point. We are at a decision point. We can rise to the occasion if we choose, but other countries have momentum on us that we have to overcome.

It is going to require a conscious effort on our part. There is a lot of attention paid to Japan. Without a doubt, Japan presents us with considerable difficulties. But it is my sense that our problems with Japan are more symptomatic of fundamental problems in our industrial structure than they are worthy of being considered the nature of the problem. If we do not address that beyond discussions in the papers and beyond factfinding investigations but programs to meet the fundamental underlying problems, I think we do face considerable difficulty, and it is not just with Japan. There are developing countries that are about to graduate out of the developing

category that in various sectors present considerable challenge to areas of U.S. production that we have thought for a long time we were unequalled in the world. We have to be attentive to those.

Senator DANFORTH. What are the underlying problems or difficulties?

Mr. CALHOUN. I think modernization of equipment is one. I think, to a great extent, our tax policy, the financial structure has not been conducive to the direction of capital to efficient and new machinery. I think U.S. business for a lot of reasons that are understandable have looked at the U.S. market as being insulated and has not had the inspiration to compete on a world standard.

You know all of the reasons. You have had people who are more expert than I sit here in this very seat telling you the problems. I think they have been articulate. The question is, What is going to take place between Government and private sector to lead us out of that?

Senator DANFORTH. Part of the problem is governmental. Part of the problem is that the old spirit of adventure and risk taking in the private sector just seems to me to be gone. It used to be that the model of American enterprise was Horatio Alger. Now I wonder if it is not Caspar Milquetoast.

Mr. CALHOUN. Senator, I would be remiss in saying that, while I certainly agree with the thrust of what you say, from time to time we get a lot of Horatio Algers appearing before the Commission. It is heartwarming if not also depressing at the same time.

Senator DANFORTH. Does anyone else have a comment?

Mr. FRANK. I agree with Commissioner Calhoun. I think we are at a turning point. When we look at and analyze the various competitors we have offshore, we find they have outmaneuvered us rather dramatically with their knowledge of how to handle world trade and how to penetrate our markets while keeping us out of their markets. We are still in the sandbox in our trade negotiations and our approach. When we look at almost any specific industry, we have the hands of the industry tied behind its back while governments offshore support their industries. In fact the U.S. Government, at times, aids offshore companies or industries to the detriment of our own domestic companies or industries. It is almost impossible for any company in this country to compete against a total national entity. The competition is rather unfair in most cases, when considering Government seed money for financing offshore businesses, considering the subsidies that are drummed up, considering just all the angles that foreign competition use to beat our laws here in order to penetrate our markets.

While we are studying one series of situations, they are already advanced into graduate school and come back and hit us from another direction. We cannot keep up with them. What you get is an awful lot of offshore leaders snickering at us because of the fact they made fools of us and because we cannot handle the situation.

The U.S. industry has an impossible task in financing its sales offshore. We should have war chests in this area to equalize on interest rates. Even in our industries' competition for bidding on major jobs in this country, we cannot compete on an interest-rate basis. Foreign business are subsidized and have financing in this area.

The problem is compounding, and it has not been properly addressed overall. I do not think I am calling for a national economic policy, but something close to it is necessary to coordinate all efforts.

We seem to be fighting for turf rights in this country. One agency is pulling in one direction and another pulling in a second direction and a third and a fourth in still other directions. Thus we are shredding our industrial base which has been caught in the middle. Well, if we examine our industrial base, we have something really to be concerned about. I recently listed about 23 or so industries that are so rapidly being eroded that it presents an immediate national security problem. Fasteners are one example. I think there is 59 percent import penetration in this market. Offshore producers also own a great portion of the U.S. domestic fastener industry.

The U.S. valve industry is another example. There are other industries being driven to the sidelines, or they are foreign-owned and using many foreign-produced components. We have very little left in some industries. I am not only talking about the major industries such as autos and steel, but also of the second- and third-tier industries, some of which are just about annihilated now. When the economy rebounds from the current economic slump, we may not have any muscle with which to rebound. The rebound will be less. If further erosion continues, there will be yet less domestic capability after that.

I think this situation is extremely serious. I think we learn it is even more serious and of more concern when we get out into the various districts where these industries are located. The communities are devastated and social disorder is starting to climb. Police forces are being beefed up. Suicides and murders have increased. The lack of U.S. industries and jobs is of great concern out there.

The cause is not due to an economic slump. It is largely due to nonenforcement of trade laws. There ar fair trade issues that we should attend to now because these impacted U.S. industries are really competitive. They could compete if they are allowed to compete on fair terms.

Senator DANFORTH. What do you think we should do?

Mr. FRANK. Mobilize! Mobilization should be done on an orderly basis. We should have the various agencies pulling together, not fighting for different turf rights. We need to have some knowledge in the industrial base as to what is happening to some of these basic and secondary or tertiary industries. We need to know what plight they are in and how remedies can be brought forth. As I say, you get hit in one direction by foreign competitors, and then you get hit in the second and third direction before ycu attend to the first trade penetration brush fire.

I think a proper analysis should be made by some centralized group. Maybe the central group should be the Senate Finance Committee's Subcommittee on Trade, and House Ways and Means Subcommittee on Trade. This would be one nucleus that could be combined with the Department of Defense, Department of Commerce, and the Special Trade Representative. The GAO already has funds to start such a task force.

I think we are talking about, in steel, bringing the tripartite group together: Government, labor, and business. I think we should have some sort of group within the various parts of Government and agencies to at least recognize the basic problems and pull together. This is very vital to the future of this country.

Your comment was: "We used to have the old spirit of adventure, risk taking, and Horatio Algers." It is pretty difficult for a Horatio Algers to do anything today. For Horatio Algers to compete in basic industries, they have to compete with Japan, incorporated, and do it alone. Now risk taking is gone in part because of Government actions or lack of action. It is pretty difficult today to do anything except make some tinsel-type things and neon lights. Our basic industries are going.

Mr. CALHOUN. Senator, to respond to the question you just asked Commissioner Frank about what we can do. Some weeks ago, Frank Wile, former Assistant Secretary of Commerce, had an article, I think in the New York Times, where he suggested and he admitted up front that it was not a hard suggestion, that there were problems with it, but he threw it out as a seed idea of organizing something similar to the War Mobilization Board that would coordinate, if you will excuse the expression, something that approaches an industrial policy in the United States. It would attempt to bring the Federal Government, industry, and labor together to direct thinking, to direct investment, to examine laws that obstruct the ability for various sectors of our economy to be competitive on a world standard.

Again I emphasize as he emphasized that that was not a hard and fast structural recommendation, but I think the essence of his article was that we have reached a point where it is time to do something. The something that needs to be done needs to be rather radical. Within our federal system and within our constitutional system we have to approach the problem in a unified, constructive way.

He threw that out as an idea. I would recommend that for your reading or at least suggest that your staff read it and give you their sense of it. I think that is the direction, if we are going to meet the challenge, that we are going to have to go in.

Senator DANFORTH. Does anybody else have anything to add?

Thank you all very much. It was very, very helpful.

Next we have William T. Archey, Deputy Commissioner of the Customs Service.

STATEMENT OF WILLIAM T. ARCHEY, DEPUTY COMMISSIONER, U.S. CUSTOMS SERVICE, ACCOMPANIED BY GEORGE C. CORCORAN, JR., ASSISTANT COMMISSIONER; JACK T. LACY, COMPTROLLER; JOHN P. SIMPSON, DIRECTOR, OFFICE OF REGULATIONS AND RULINGS; RICHARD H. ABBEY, CHIEF COUNSEL; AND C. WAYNE HAMILTON, DIRECTOR, BUDGET DIVISION

Mr. ARCHEY. Mr. Chairman and Senator Bentsen, we appreciate the opportunity to appear before you today to represent the U.S. Customs Service fiscal year 1983 appropriation request of $530,524,000 and 12,581 direct average positions.

We have a lengthy statement from the Commissioner that we would like to submit for the record, and then I would like to give a brief summary of those comments.

Senator DANFORTH. Without objection, the prepared statement will be inserted.

[The prepared statement of Hon. William Von Raab follows:]

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
INTRODUCTORY STATEMENT OF WILLIAM VON RAAB
COMMISSIONER OF CUSTOMS
FOR PRESENTATION TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE

INTRODUCTION

Mr. Chairman and Members of the Committee, we appreciate the opportunity to appear before you today to present the U.S. Customs Service FY 1983 appropriation request of $530,524,000 and 12,581 direct average positions. This budget includes 719 average positions and $31,464,000 to carry on the alcohol and tobacco functions transferred from the Bureau of Alcohol, and Tobacco and Firearms. This level of funding assumes only minimum enforcement of the Federal Alcohol Administration Act, with 100 average positions and $3,500,000.

This appropriation level represents a net increase of $6,299,000, which is the result of an uncontrollable increase of $43,594,000 to maintain the current level of operations for Customs functions, offset by a reduction of $38,277,000 in Customs operational staffing and costs. It should be noted for year-to-year comparisons that the authorized level for FY 1982 does not include resources for the recent pay increases, while the FY 1983 level does. Our request assumes a reduction-in-force of 1,504 full-time permanent positions. In addition, this request assumes attrition of 800 positions for a total decrease of 2,304 Customs positions.

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More detailed information can be found in our fiscal year 1983 budget submission. Now I would like to tell you about some of Customs accomplishments for the past fiscal year.

MAJOR ACCOMPLISHMENTS

As you know, the Customs Service is a major source of revenue for the Federal Government as well as a vital law enforcement arm. During fiscal year 1981 we collected a record $9.2 billion, an increase of better than 12 percent over the previous year. This represents a return of over $18 for every appropriated dollar spent in carrying out our Customs responsibilities.

Customs cleared more than 314 million persons entering the United States and more than 96 million vehicles, vessels, and aircraft. This represents an average increase of 6 percent in the number of persons, and carriers cleared in fiscal year 1981 when compared to fiscal year 1980. We also processed some 46 million mail parcels, and 78 million items of letter class mail.

Illicit drugs, prohibited articles, and undeclared merchandise seized by Customs were valued at more than $5.4 billion. Customs seizures were 234 pounds of heroin; 3,741 pounds of cocaine; 17,991 pounds of hashish; 38.9 million units of polydrugs, and 5 million pounds of marijuana. Seized in conjunction with other agencies.

The fiscal year 1983 budget for the Customs Service mirrors the policies of this Administration for control of government spending; reduction of crime; responsiveness to the private sector; and increasing the efficiency and effectiveness of operations.

The objectives within the Customs Service budget closely follow these policies. Foremost, enforcement has not been emphasized sufficiently in Customs; therefore, we will turn this around by making law enforcement our highest priority. Customs has a critical role in enforcing a variety of significant laws involving trade, drug interdiction, export of critical technology, and commercial fraud.

Secondly, facilitation of passengers and cargo will also be emphasized, since, in our opinion, most people we service are law abiding. This is not contradictory to enhanced law enforcement. Customs officers must focus their efforts on the "high risk" passengers and cargo while allowing the predominantly law abiding transactions to receive minimal attention. The development of sound selectivity methods is critical to the accomplishment of this objective.

Finally, in an era of declining resources, this budget continues our efforts to reduce the overall cost of doing business. Bureaucratic maintenance operations will be reduced or eliminated by instituting sound management practices and systems to eliminate waste. Overhead, as well as redundant and marginal operations, have been specifically targeted for significant

reductions to partially meet the reduced resource levels reflected in this budget. We are also studying a number of options to achieve resource savings and improve operational performance, including a possible regional reorganization. In this area, we are completing a reevaluation of our regional structure which will be submitted to the Department for review in the very near future.

To implement the objectives within this budget, we will rely on further deregulation, modern management practices, automation and technology to resolve the problems posed by increases in workload, paperwork, and enforcement threat. In addition, major structural reorganizations will be implemented as required to help meet these overall objectives.

INSPECTION AND CONTROL

The Inspection and Control Activity, in the U.S. Customs Service, encompasses programs involved in the processing of persons and cargo, as well as the clearance of carriers, for both revenue and enforcement purposes. While it is important that we emphasize our law enforcement and revenue collection functions, we are well aware that this must be done in a manner which continues to facilitate the movement of people and cargo across our borders. It is my understanding that the concepts of enforcement and facilitation are viewed as contradictory and have been called the Customs dilemma. Personally, I do not believe these two functions conflict with each other. As I have previously stated, most of our clients are honest and law abiding.

Customs can not continue to penalize the vast majority of passengers and importers by subjecting them to antiquated, time delaying processing methods. Such scrutiny produces minimal seizures which may have been significant 10 years ago, but now represent only a fraction of our enforcement results. In order to better balance these missions, Customs will implement innovative selective processing techniques and criteria to capitalize on the high compliance level of the majority of passengers and cargo. We will expand existing cargo selectivity systems and develop an innovative passenger processing system which will reduce the time for clearing Customs while not sacrificing enforcement results. Use of these techniques very recently resulted in the seizure of 133 pounds of heroin concealed in coffee urns in a Brooklyn warehouse, and 37 pounds of heroin concealed in false-bottom suitcases at JFK International Airport.

Passenger Processing

Customs processed more than 314 million persons entering the United States in fiscal 1981. This number is expected to increase 6 percent by the end of FY 1983. Although air passengers constitute only about 10 percent of the total number of persons entering the country, they strain Customs resources more severely because of their high concentration in time and place. While more rapid passenger growth is expected overall in FY 1983, the percentage of air passengers will increase substantially more than by land or sea.

To meet these greater demands, Customs has implemented systems such as Citizen By-pass inspection. Operating at 26 locations within 22 airports, this system allows U.S. citizens with valid passports and military personnel traveling under official orders to by-pass Immigration processing and proceed directly to the Customs area. In spite of the problem of slow baggage arrival, Citizen By-pass has accelerated overall inspectional processing by as much as 20 percent.

Another system currently operating at five airports is One-Stop, in which one Federal inspector is cross-designated to perform routine inspections for Customs, Immigration, and Agriculture at one location in the airport. The passenger presents himself to the inspector with all entry documents and baggage in his possession. Although still subject to delays in baggage delivery, this single inspection processing has reduced the primary inspection time by as much as 30 percent.

Further implementation of One-Stop is tied to the outcome of a Congressionally mandated trial program, the Accelerated Specialized Inspection System Test (ASIST). This six-month test began August 4, 1981, at Miami and Los Angeles International Airports. While ASIST also uses cross-designated Customs and Immigration inspectors, passengers are screened by the inspectors prior to claiming their checked baggage. We hope this will allow us to take advantage of the delay in baggage delivery without weakening our enforcement, however, we are aware that this may not be the answer to our facilitation problems. Because of the

variety of facilities, flight arrival patterns, and staffing capabilities, we feel that no one all encompassing, short-term solution may be feasible. Therefore, we are examining multiple strategies to cope with our current and future demands.

To judge the success of ASIST, the three Federal Inspection Services (FIS), the Customs Service, the Immigration and Naturalization Service (INS), and the Animal and Plant Health Inspection Service (APHIS), are comparing the processing rates, staffing requirements, enforcement results, facility, and aircraft peaking data obtained during the test period with available data from the comparable period of last year. A complete evaluation of the test program will be forwarded to Congress later this year.

Cargo Processing

In FY 1981, Customs processed over $257 billion in merchandise and over 4.5 million formal entries. Faced with substantial decreases in staffing in FY 1983, selectivity is imperative. We have placed the emphasis not only on the facilitation of passengers but also on the faciliation of cargo. To accomplish this we are expanding existing cargo selectivity systems and developing performance standards and specific goals. At major airports around the country with their ever increasing arrival of passengers and cargo improving facilitation is essential. I would now like to discuss several systems which have been specifically designed to facilitate this flow of cargo while focusing on high risk transactions.

The Automated Cargo Clearance and Enforcement Processing Test (ACCEPT) was revised and implemented for final evaluation in New Orleans during FY 1981. The basic objectives of ACCEPT are to concentrate Customs resources on high risk cargo shipments identified by automated intelligence and examination criteria, and to facilitate the flow of legitimate cargo across our borders.

Based on the success of the New Orleans test, ACCEPT is being considered for implementation nationwide and for programming on the new Customs computer during FY 1982. A similar system used at land borders, Better Border Enforcement Through Selectivity (BBEETS), also uses prior information and violation profiles to strengthen enforcement while expediting cargo flow.

Final implementation of an on-line In-Bond system is underway to monitor and control the nationwide flow of imported merchandise being transferred under bond. Paperwork involved in this procedure has thus been sharply reduced, simplified and automated for nearly 100 percent of these shipments.

In FY 1981, new x-ray systems designed to satisfy Customs unique requirements were instrumental in the seizure of cocaine, hashish, and marijuana, and in the seizure of more than $2 million in currency. Other technologies will be applied in FY 1983, concentrating on systems to detect narcotics and currency concealed in baggage, packages, and conveyances.

In September 1982, Customs will eliminate approximately 300 warehouse officer positions responsible for direct supervision of bonded merchandise that must be stored. Operations will shift from on-site control to spot checks and regulatory audits in inventory and will produce significant savings for the private sector.

Customs Detector Dog and Special Cargo Enforcement Teams continued their successful inspection activities during FY 1981. Along with the dedicated work of Customs officers nationwide, their efforts resulted in cases which included the following.

A Miami team with dogs discovered 100 pounds of cocaine in an aircraft nose cone shipped from Colombia en route to Canada.

At JFK Airport in New York, an inspector discovered six pounds of heroin in the false bottom of a suitcase carried by a Thai arriving from Korea.

At Honolulu Airport, inspectors found eight pounds of heroin, in the suitcase of an overly polite real estate dealer from Washington State who was returning from the Philippines.

At New Orleans Airport, inspectors found $1,890,862 in undeclared checks and currency in the briefcase of a male passenger.

At Los Angeles Airport, a couple was found to have $212,600 in unreported checks and currency in food jars, a stocking box, and a book.

At San Francisco Airport, inspectors discovered seven pounds of cocaine packed into flashlight batteries in the luggage of a traveler from Amsterdam.

On the New Jersey waterfront, a team, with dogs, discovered $28 million worth of heroin (about 46 pounds) secreted in a shipment of furniture from Sicily.

A team in Miami uncovered 2,381 pounds of methaqualone powder, the principal ingredient of quaaludes, in the largest such seizure in U.S. history.

Finally, in Newark, New Jersey, a team discovered in a shipment identified as gun parts 119 fully assembled machine guns, worth nearly $600,000.

TARIFF AND TRADE

The principal functions of the Tariff and Trade program derive from the Tariff Act of 1930, which requires that Customs carry out appraisement, classification, duty collection and liquidation on entries of imported merchandise. Related functions include the verification of import statistics, administration of trade policy through quotas, monitoring and other control systems, and enforcement of merchandise admissibility requirements of over 40 other Federal agencies.

The Customs Service has been making an ever-increasing number of civil penalty cases. For the three-year period ending with fiscal year 1981, Customs had seized about $97,000,000 in monetary instruments and collected about $4,000,000 in court fines and civil penalties under the Currency and Foreign Transaction Reporting Act. Civil penalty cases usually follow criminal prosecution or crime-related cases, and involve large sums of money; two recent cases assessed penalties totalling approximately $10,000,000.

In addition, the Customs Service annually makes thousands of seizures of property involved in violations, ranging from aircraft, munitions, jewelry, vessels, and narcotics to merchandise of every description. These violations of Customs laws often result in the assessment of very substantial monetary penalties. Most of these seizures involve court-mandated deadlines, and a large number of assessed civil liabilities are contested vigorously by highly competent counsel. We continually are devising procedures and methodologies to facilitate the administration of civil fines, penalties and forfeitures in an equitable manner, consistent with our missions of law enforcement, protection and collection of revenue, and protection of domestic industry.

We have continued to publish a significantly increased number of Customs rulings on matters of widespread interest. The benefits of publishing our official position are increases in uniformity of treatment regardless of the port of entry or arrival and providing to the importing public and international trade community an increased degree of predictability in their business transactions. In addition, the publication of significant rulings has the tendency of decreasing controversy between Customs and those who are compelled to comply with our laws and regulations in the conduct of their business and travels.

I would like to emphasize that I am a strong believer in the free enterprise system and feel that it should be allowed to

operate as much as possible free from government over-regulation. At present, Customs also suffers from the regulatory burden, with dramatically increased paperwork requirements. I intend to reduce the burdens of unnecessary regulations on the trade community and of routine workload and paper processing on Customs operations. We will eliminate obsolete requirements imposed on the trade community, increase efficiency, reduce costs to both the private sector and Customs, and streamline monitoring and control systems by expanding the use of audit and automation.

Maximizing Automation Capabilities

As previously mentioned, one of our objectives is to develop a fully integrated and automated data base that will satisfy the basic requirements of Customs and the Trade Community for entry processing, entry examination, release, duty collection, and liquidation. Many of our current manual and automated entry processing functions have evolved as independent activities within the Customs Service and do not integrate well with one another.

The new Customs computer will greatly assist Customs in achieving this integrated systems support and will incorporate modern and efficient business practices into Customs functional operations involving entry, revenue, bond, quota, cargo control and administrative processing. This computer will facilitate more responsive support for current systems, eliminate duplication in present technical and operational support, and provide a baseline for significantly improved user support.

A very important automation project is the design of a comprehensive Selective Entry Processing system. To cope with increased entry workloads, this system will allow for reduced levels of processing for certain low risk entries at both the examination stage and classification and appraisement stage. The proposed system will be designed to improve communications between inspectors and import specialists, as well as between Customs offices in different sections of the country. This, in turn, will promote processing uniformity. In FY 1983, system design and developments should be completed and ready for the next stages of programming and testing. Once implemented, this selectivity system should result in the performance of fewer examinations, increased discrepancy discoveries, more processing uniformity, and more efficient use of government personnel.

Another major system I would like to discuss is the Automated Broker Interface (ABI), a joint project of the Customs Service and the Customs brokers industry to electronically exchange import information between the brokers' computers and the Customs computer. This process could eliminate the manual filing of millions of documents and a substantial amount of data input costs, allows for the correction of errors prior to the start of Customs processing, and reduces the costly rehandling of transactions for both Customs and the trade community.

By the start of FY 1983, both Customs and the brokerage community will have completed an evaluation of the pilot test in Baltimore and Philadelphia, and identified with priorities those

design features for the national ABI system. A decision will be made on whether to implement a national ABI system.

This project is expected to pay increasing benefits for the future by creating a communications and processing environment that will lead us to eliminating large amounts of paperwork and providing the capability for simplified methods of processing imports and duty payments.

Optimizing Current Resources

In a time of static and/or diminishing resources with constant or increasing workload, we are seeking other ways to enhance productivity. New methods to expedite the processing of quota entries, without jeopardizing Customs careful scrutiny of this sensitive merchandise, are being tested. We have established procedures for coordinating the work of import specialists and regulatory auditors to facilitate selective entry processing.

Further, plans are being developed to increase the centralization of duty assessment functions in each of Customs nine regions. Each region will be involved in a plan for reorganizing duty assessment locations, striving for no more than one appraisement location per district (with up to a total of 35 duty assessment locations nationwide). This should facilitate communication, increase uniformity of appraisement, and reduce overhead, without unduly disrupting the trade community and the public at large. Resource allocation systems are being developed and implemented in both passenger and cargo processing and tariff

and trade functions to ensure equitable and efficient service to the trade community and the public. The success of our program delegating the authority to issue binding rulings in selective areas of tariff classification to National Import Specialist has been remarkable. The turn-around time at New York is well under 30 days as compared to at least several months when all binding rulings were issued from Headquarters. In addition, this system has permitted the use of highly trained competent attorneys at Headquarters for major matters involving very substantial sums of money and/or issues impacting upon our international trade policy and position. We are now able to handle these complex matters on a more expeditious basis.

Based on the success of this program, careful consideration is being given to delegating additional decision-making authority to our field office under close Headquarters guidance and supervision, and always with a guaranteed right of appeal to Headquarters.

These efforts should simplify processing procedures and generate significant productivity improvements.

TACTICAL INTERDICTION

The primary goal of the Tactical Interdiction Program is to detect and apprehend persons involved in the smuggling of contraband into the United States both at and between the ports of entry. The vast majority of the smuggling threat involves drugs. A major focus in developing Customs strategies to counter the smuggling threat centers around the nature of various

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narcotic threats. In this regard, Customs maintains a highly mobile interdiction force, proficient in land, sea, and air tactical enforcement operations tailored to meet changing smuggling patterns. This force, Customs Patrol, has introduced new operational approaches, equipment, and technology to reduce smugglers' options for choosing the method, time, and location for entering contraband into this country.

Our principal interdiction force is some 1,200 Patrol officers, stationed at land, sea, and air ports of entry in the U.S., and supported by airplanes, helicopters, and boats. The primary emphasis of the program has been the Southeast Border, where massive amounts of drugs enter the country, and large flows of currency enter and leave daily to finance this international drug trafficking. Close cooperation with other enforcement agencies, such as the Coast Guard, has resulted in a series of joint interdiction operations at border areas. During fiscal year 1981, both nondrug and drug seizures made by Customs Patrol officers amounted to almost $4.8 billion. This translates into nearly $4 million worth of contraband per Patrol Officer.

Even so, drug smuggling is on the increase, and law enforcement agencies are not getting a large percentage of the estimated total traffic. At the same time, routine workload and paperwork are requiring more and more staff time, leaving less time for enforcement efforts. I fully intend to emphasize not only the overall law enforcement thrust of Customs, but also the substantial effort and results that are and will be taking

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place. This Administration has made a commitment to fight crime, in response to public concern. We in Customs have a unique opportunity to contribute.

I plan to realign the internal organizational structure so that the various enforcement elements work better together. Customs will seek closer cooperation with other law enforcement agencies as well as with foreign countries. Again, selectivity and technology will be employed in our interdiction efforts.

Current Efforts

Our Land Interdiction Program conducts a variety of traditional enforcement operations such as surveillances, patrols, intelligence-gathering, monitoring sensors, continuing examinations of passengers and crew members, special integrated enforcement efforts, and vessel and aircraft searches. Land Patrol officers also participate in cooperative interdiction efforts and maintain a liaison with other law enforcement agencies.

To combat smuggling by vessels, the Customs Marine Interdiction Program operates 95 boats ranging in size from 14 to 57 feet and stationed at 49 different locations. These boats are used for stationary and moving surveillances, routine patrols (in high risk areas), and intelligence gathering. A favorite method of large-scale smugglers is the use of "motherships" which are large fishing or ocean-going vessels. These "motherships" are laden in Carribean and Latin American

countries with multi-ton supplies of marijuana, and head either directly for the United States or for rendezvous points where the marijuana is either unloaded at cache sites or off-loaded to smaller boats which can more easily enter the United States undetected. Intelligence reports indicate that large-scale smuggling by vessel, while still very active in the southeast, is increasing along the west coast and the Middle Atlantic and New England coastal areas.

As part of our continuing review of the Patrol Program we are taking a close look at the resource deployment in the entire Tactical Interdiction Program. During fiscal year 1981, Customs completed development of the Patrol Resource Allocation Analysis System (PRAAS), which combines enforcement results, productivity, and intelligence data to provide a detailed guide for deployment of resources. Customs has directed the redeployment of approximately 8 percent of its tactical interdiction workforce from areas of low smuggling threat and low productivity to the high threat Gulf and Southeast. This redeployment, consistent with the concept of a highly mobile tactical interdiction force, will be completed in the first quarter of 1982.

A prime concern of the U.S. Customs Service has been the effectiveness of our Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband via aircraft. After an extensive review of this program in fiscal year 1981, we conducted a 5-month test of a new program design and strategy. Employing a module approach, the test yielded a 173 percent

increase over "normal" air interdiction results. Based on these test results, this operational concept will be instituted in the Miami Region in fiscal years 1982-1983. At this time we are implementing only the nonequipment-related methodologies and procedures developed from this strategy on a servicewide basis.

In FY 1981, the Congress appropriated $10 million for enhancement of the Air Interdiction Program. These funds were used to purchase detection and other equipment, much of which is being used in the southeastern United States in disrupting drug trafficking.

The variety and magnitude of the Patrol cases resulting from our interdiction efforts in fiscal year 1981 are exemplified by the following.

At Miami Airport, a Patrol officer, observing the off-loading of a plane from Ecuador, noticed two cardboard boxes that had no identification or manifests. The boxes held 230 pounds of cocaine.

A suspect aircraft was tracked by Customs radar and planes from Central Texas to Orlando, Florida, where it landed. The plane was then tracked to Gatlinburg, Tennessee, where Customs and State officers uncovered 630 pounds of cocaine in boxes and duffel bags inside the craft. It was the largest such seizure in U.S. history.

In a joint Customs/DEA/local operation at Seadrift, Texas, officers arrested 14 persons and seized a tractor trailer, 2 mobile homes, 7 weapons, a shrimp boat, and 16 tons of marijuana

after the narcotic was off-loaded from the boat onto the tractor trailer.

After a lengthy surveillance, Morgan City, Louisiana, Patrol officers seized a 100-foot barge, a tugboat, one small offload boat, and 160,000 pounds of marijuana. Four arrests were made.

Working on carefully developed information, Patrol officers in Charleston, South Carolina, observed an offload operation involving 9,600 pounds of hashish. The officers seized the hashish, four boats, five offload vans, and two fully automatic weapons, and made eight arrests.

During the month of October 1981, Customs and other agencies seized 59 vessels carrying marijuana from motherships or directly from cache sites in the Bahamas.

INVESTIGATIONS

The U.S. Customs Service is responsible for the investigation of acts in violation of Customs and related laws which include currency, neutrality, fraud, organized crime, white collar crime, smuggling, cargo theft and wildlife investigations.

In keeping with our high law enforcement priority, we have several goals to achieve greater investigative effectiveness. We are emphasizing intelligence, technology, and analysis of performance. This entails identifying high threat, high payoff areas and operations; developing enforcement profiles and criteria; evaluating enforcement performance results; and establishing feedback mechanisms to capitalize on successful approaches and to eliminate operations which are not cost effective.

Special operations, designed specifically to increase enforcement results, will also be emphasized. These operations will focus on disrupting conspiracies and halting illegal export of critical technology; impacting the national drug problem with a special emphasis on reducing heroin smuggling; detecting major losses of revenue and criminal fraud by increasing investigative activity in the trade area, and disrupting the cash flow of narcotics traffickers and other organized crime organizations.

Currently, one of our most notable applications of technology deals with the use of technical equipment in direct support of investigative field activity. This equipment has made a valuable contribution to some of our most successful investigations of violations of narcotic and currency laws and neutrality violations, as well as fraud and theft cases. Novel investigative strategies are being supported by the sophisticated use of concealed closed circuit television and microwave relay systems, electronic tracking devices, sensors and telephone intercept equipment. In cases throughout the country, the technical investigative equipment provided and installed by our Research and Development program is making our evidence-gathering capabilities more complete and thorough, while also allowing us to reduce manpower requirements and costs in support of these investigations. During fiscal year 1983, we intend to continue to selectively acquire and install such equipment for our highest priority investigations.

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Our investigative emphasis has incorporated the areas defined by the U.S. Attorney General to receive top priority attention under the National Criminal Justice Program of Federal law enforcement agencies. Fiscal year 1981 was the first full year in which we sharply focused resources on these designated priority areas and isolated significant case activity.

By the end of fiscal year 1981, 64 percent of our cases on hand were in four top priority categories (currency, fraud, critical technology, and neutrality). During fiscal year 1981, these types of cases accounted for 44 percent of arrests, 47 percent of felony convictions, and 62 percent of indictments. During fiscal year 1981, felony convictions increased 29 percent and currency convictions almost doubled (150 in fiscal year 1981; 74 in fiscal year 1980).

During fiscal year 1982 and fiscal year 1983 we will continue this emphasis, particularly expanding the use of the grand jury indictment process. This technique employs close cooperation and sponsorship of U.S. Attorneys even in the investigative stage, allowing for early identification of probable indictments. Currency violations, which make up 43 percent of all our fiscal year 1981 indictments, were supported by this process in a special operation in Miami, tying together a number of related currency investigations. We hope to extend this success to New York and Los Angeles in fiscal year 1982, while simultaneously preparing several additional sites for task force activation in fiscal year 1983.

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This approach is among the techniques employed in three new special enforcement efforts. These operations will combine technological and analytic resources to target high-level, high-risk violators.

Operation El Dorado is a national effort directed toward the seizure of multibillion dollar illicit cash flows associated with major narcotics traffickers and other organized criminals. Customs is cooperating in establishing two El Dorado multiagency financial task forces, located in New York and Los Angeles. These task forces will be enhanced by investigative support staff, intelligence analysis, and computer-based information management. Additional major task forces are planned for fiscal years 1982 and 1983.

Operation Exodus is a Customs effort to develop a threat assessment of critical technology export violations and implement a nationally controlled program to detect and prevent illegal exportations. Operation Fair Trade is a national effort to target fraud violations in two important industries, textiles and consumer electronics, by developing threat assessments and violator profiles. Both Exodus and Fair Trade will be supported by the development of automated data bases combining economic and commercial indicators with law enforcement information to identify high risk areas.

Through cooperation with many other local, State, Federal, and foreign agencies, special agents have conducted highly successful investigations which included the following recent cases.

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A New Rochelle, New York, firm pleaded guilty to exporting 250 gas-powered welding machines transshipped through West Germany to Iran in violation of Presidential sanctions during the hostage crisis. Special agents built the case with the help of West German customs officials. The firm's owners received prison sentences and fines.

Customs agents and patrol officers arrested 10 men with a hoard of firearms and explosives as they were about to embark by ship from the New Orleans area. A three-month investigation conducted together with Royal Canadian Mounted Police, the State Department, the FBI, and BATF had identified the group as mercenaries planning an armed overthrow of the government of Dominica in the British West Indies.

Four suitcases of Peruvian pre-Columbia artifacts, taken from Peru in violations of Peruvian law, were seized from a New York man at Dulles Airport in Washington. One week later, a search of the man's New York apartment uncovered what experts said was the most extensive collection, public or private, of Peruvian pre-Columbian artifacts anywhere in the world. The collection including some 850 feathered articles, gold trinkets, and textiles dating from 500 B.C., was worth an estimated $500,000. Arrangements were made to return the artifacts to Peru.

A Boston man was arrested and charged under a new statute involving sexual exploitation of minors after undercover Customs and Postal Service agents bought from him and his associates 24 imported reels of pornographic film.

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Agents arrested 6 men at a Houston airport and seized an illegal shipment of 1,400 small arms, 350 grenade launchers, and several thousand magazines of ammunition about to be flown to South Africa.

Customs agents and New York City police arrested suspects charged with multiple thefts of property from Customs custody. The arrests climaxed a five-year investigation that uncovered organized crime involvement in cargo theft conspiracies at JFK Airport.

Customs agents, acting on a tip, intercepted a Colombian woman as she was preparing to leave Miami Airport for Bogota. An examination of her luggage revealed six Spanish versions of the popular game, "Monopoly." Packed neatly in the games was a total of nearly $1.5 million in undeclared U.S. currency. Investigation revealed that the money was destined for known large-scale drug dealers in Colombia.

Agents from Customs, IRS, and DEA converged on Tampa Airport in helicopters and jeeps to stop a private plane from taking off for the Bahamas. Aboard was $500,000 in unreported drug smugglers' currency ticketed for a Bahamas bank "laundry."

Special agents in San Antonio, Texas, arrested six men, including two high-ranking Nicaraguan Air Force officials, who were attempting to smuggle two U.S. helicopters to Nicaragua in violation of the Arms Export Control Act.

Finally, special agents in Miami seized $3.5 million in unreported currency being transported by a Colombian currency

exchange firm and an additional $5.3 million located in a related bank account.

COOPERATION WITH FEDERAL AGENCIES

While I intend to seek closer cooperation with other law enforcement agencies, I would like to emphasize that Customs works with other Federal agencies in several capacities beyond joint enforcement efforts. As mentioned earlier in this statement, Customs currently works with the Immigration and Naturalization Service and the Department of Agriculture in operating Citizen By-Pass, One-Stop, and ASIST inspection and control passenger processing systems at various airports.

Another major Customs responsibility is the facilitation and control of international trade. To accomplish this effectively requires coordination and cooperation with several U.S. agencies that set trade policy as well as with foreign governments.

Customs advises Federal agencies whether the trade proposals under consideration are feasible from an operational and legal standpoint. Once a trade policy is enacted, then Customs is responsible for implementating it, that is, issuing operational instructions; modifying operational procedures and/or regulations, if warranted; monitoring implementation; and resolving problems. Our advisory trade policy role has been used in support of such U.S. agencies as: the U.S. Trade Representative in international trade negotiations; the International Trade Commission in tariff legislation and tariff schedule changes; the Department of Energy in its oil import

licensing; the Department of Commerce in its steel trigger price mechanism, textile quotas and visas, and antidumping and countervailing duty actions; and the Department of Agriculture in its cheese and other commodity licenses and quotas. These are only some of the U.S. agencies Customs supports in enforcing more than 400 laws and regulations of some 40 Federal agencies.

As the repository of Bank Secrecy Act information on cash transactions in excess of $10,000 and cash exportations of $5,000 or more, Customs has an obligation to support other agency efforts with this data. We have recently disseminated information packages to Federal, State, local, and foreign enforcement agencies describing provisions of the Act. Eighteen agencies are now accessing Bank Secrecy Act data. We are also establishing a Financial Law Enforcement Center (FLEC) to aid in the targeting, collection, and development of intelligence to support not only field agents, but existing financial and El Dorado task forces and Federal agencies involved in financial investigations.

We are also involved in cooperative technical ventures that include exchanging equipment and information with many agencies in order to further reduce enforcement costs and accelerate the useful operational development of new equipment. We have provided technical advice to the Agriculture and State Departments that led to purchases of several x-ray systems similar to those which we developed. We have also supported or exchanged technical equipment with the Drug Enforcement Administration, the

Federal Bureau of Investigation, the Internal Revenue Service, the Bureau of Alcohol, Tobacco and Firearms, the Immigration and Naturalization Service, and the Environmental Protection Agency. These exchanges have had enforcement payoffs for all the parties involved, and we intend to continue such cooperative activity in fiscal 1983.

Customs welcomes the possibility of increased cooperation with the Department of Defense which could arise as the result of the recent changes to the Posse Comitatus statute. A recent joint Customs/Military enforcement operation showed that Defense assistance in identifying suspected smuggler aircraft intrusions and relaying this information to Customs can add substantially to our interdiction results.

INTERNATIONAL COOPERATION

The U.S. Customs Service is also very active in the international arena and is deeply committed to the facilitation and standardization of international trade and travel. Work has been progressing since 1973 toward the development of an international system of nomenclature for use in international trade. This work, which is being done by the Harmonized System Committee of the Customs Cooperation Council, was undertaken because private business interests and governments wanted an international classification system which could serve as a basis for compatible Customs tariffs, international trade statistics and to facilitate the movement of goods. To that end, on August 24, 1981, the President requested the International Trade

Commission to prepare a conversion of the Tariff Schedules of the United States into the structure of the Harmonized System. In his request, the President instructed the International Trade Commission to avail itself of the expertise and services of the U.S. Customs Service.

Customs continues to act as the principal agency in the development of the international system. Most of the technical work has been completed and it is expected that the final technical provisions will be formulated by the end of May 1982. Customs has also been formulating a new international convention on nomenclature to put the system into effect. In both of these efforts, Customs has coordinated U.S. Government participation for final approval by the Trade Policy Staff Committee of the Office of the United States Trade Representative, and has presented the positions to the Harmonized System Committee. The negotiations to arrive at a final convention are expected to go on through 1983.

For U.S. implementation of the system, Customs is working closely with the International Trade Commission (ITC). As the ITC prepares drafts of the new tariff, they are extensively reviewed at Customs Headquarters and by National Import Specialists to insure that the new tariff covers all of the trade items presently covered by the Tariff Schedules of the U.S. Annotated (TSUSA) and that the new provisions are drafted such as to facilitate their administration. It is expected that this work will be completed in June of 1983. It should be noted that

this task involves the restructuring of the entire tariff with statistical annotations; the final result is expected to contain approximately 10,000 tariff rate and statistical lines.

International enforcement efforts have also progressed and improved. During 1980, the responsibility for conducting antidumping and countervailing duty investigations was transferred to the Commerce Department, enabling the foreign investigative staff to significantly increase support of our priority case and financial investigations. Italy's Guardia di Finanze assisted Rome Customs agents in a half-million-dollar seizure in support of a DEA/Customs case in New York, which indicted 17 members of an international heroin manufacturing and trafficking ring. Italy also seized a ship involved in a California-based narcotics distribution operation. Hong Kong and Bonn have been very active in gathering intelligence to support Customs Financial Data Base, while Hong Kong has also been especially active in textile quota enforcement. I would also like to note that Bonn has nearly quadrupled its number of high technology export control cases in the last four years (12 cases in 1978 and 45 cases in 1981), with the same staffing resources.

The U.S. Customs Service enjoys mutually beneficial bilateral cooperation with Customs administrations in countries of particular importance to the United States. For example, the U.S. Customs Service has an active program of mutual assistance with Mexican Customs under the 1976 Mexican-American Mutual Customs Assistance Agreement. This cooperation has been

beneficial to both the United States and Mexico and has resulted in important arrests and seizures. In addition, we recently agreed with the Japanese Customs and Tariff Bureau to establish a Customs Liaison Committee which will meet periodically in Japan and the U.S. This Committee would be a good opportunity to discuss Japanese procedures perceived to be non-tariff barriers to trade and to consider other topics such as mutual assistance on enforcement matters and general facilitation of trade.

Customs will participate in an Interpol seminar on investigating financial crimes during February 1982. We will present a lecture on assets attachment and Bank Secrecy Act utilization to law enforcement personnel from more than 60 countries. To encourage the exchange of information on international currency movements, we are working with Treasury Department staff on revised dissemination guidelines to provide for simplified law enforcement access.

Customs ability to make practical use of modern enforcement equipment is now well recognized by Customs organizations throughout the world. A major precedent was set in fiscal 1981 with our first international agreement on research and development, in which U.S. Customs and Canada Revenue Customs and Excise are performing a joint project in the investigation of nuclear magnetic resonance techniques for the detection of concealed narcotics. The two agencies are sharing the technical direction and funding of this project, with further cooperative research and development ventures also under consideration.

CONCLUSION

In my closing remarks, I would like to reiterate that Customs basic mission is to collect the revenue from imports and to enforce Customs and related laws. Customs fulfills this mission in a highly dynamic environment performing a variety of functions which impact the traveling public, the import and trade community, the health and welfare of American business and the general public. The activities performed by Customs in executing its responsibilities call for increasingly sophisticated operational and enforcement techniques and the application of a wide variety of skills and disciplines.

With this Administrations' determination to crack down on crime and strengthen the economy, I can see Customs playing an increasingly important role in the near future. More must be done to strengthen Customs internal operations and to devise truly effective programs to combat smuggling and protect the revenue.

I believe the strategy I have presented here is the direction in which Customs must go. I see our efforts as culminating in tangible results in a number of areas. Drug seizures and seizures of other contraband will increase. Drug trafficking will be disrupted. Revenue will increase. The illegal export of critical technology to Eastern bloc countries will be reduced. Paperwork and regulations imposed on the trade community will be reduced. Finally, passenger and cargo delays will be reduced.

While we are reducing Customs positions, I intend to make real progress on these priorities in terms of increased enforcement results, improved cost effectiveness, better service, and a modernized Customs Service.

This concludes my introductory statement. We will be pleased to discuss any of the details of our request and answer any questions you or the Members may have.

Mr. ARCHEY. Based on the administration's proposal, this budget includes 719 average positions and $31,464,000 to carry on the alcohol and tobacco functions which are to be transferred from the Bureau of Alcohol, Tobacco, and Firearms. As the committee knows, this proposal has been deferred until at least June, when further action may be taken.

The appropriation level represents a reduction of $38,277,000 in Customs operational staffing and costs. It should also be noted that from a year-to-year comparison the authorized level for fiscal year 1982 does not include resources for the recent pay increase, while the fiscal year 1983 level does. Our request also assumes a reduction-in-force of 1,504 full-time permanent positions. In addition, this request assumes attrition of approximately 800 positions for a total decrease of 2,304 full-time permanent Customs positions.

As we carry out our Customs mission of collecting the revenue from imports and enforcing Customs and related laws, we intend to shape Customs policies to conform to the administration's direction. We will control Government spending, be responsive to the private sector, make operations efficient and effective, and, where appropriate, apply user fees to specific groups who directly benefit from services.

Enforcement has also not been sufficiently emphasized in the past. The Commissioner intends to make this the highest priority in the U.S. Customs Service. Drug smuggling is on the increase. Law enforcement agencies are not getting as large a percentage of the estimated total traffic as is possible. Routine workload and paperwork are requiring more and more staff time, leaving less time for enforcement efforts, but substantial efforts and results are and will be taking place. We intend to highlight the overall law enforcement thrust of Customs.

As an example of the increase in our law enforcement efforts as the committee may be aware, we presently are conducting a very large operation in the south Florida area, where Customs in the last few weeks has added 250 people on a TDY basis. That was in addition to 102 patrol officers that had previously been deployed to the Miami area just prior to the south Florida initiative.

Several weeks ago, we seized 3,906 pounds of cocaine at Miami International Airport, the largest cocaine seizure ever made in the United States. In January, we made two major heroin seizures in New York, totaling 153 pounds of heroin, one of which was for 116 pounds, the largest seizure in 7 years.

We in Customs have a unique opportunity, we think, to contribute to the administration's commitment to fight crime. We have to better define Customs' and other agencies' roles in drug enforcement efforts; stress intelligence, technology, and analysis of performance; but also emphasize selectivity, increasing the use of profiles and new techniques on high-risk transactions.

Another important priority is our responsibility to collect revenue from duties, fees, and excise taxes. This is particularly crucial during this period of corporate and personal income tax reductions and budgetary restraints designed to put our Nation's economy on a strong footing.

Customs has a major impact on commerce. We are responsible for the administration of trade laws as well as tariff and nontariff

controls on imports and exports, and for carrying out U.S. trade policy to protect both U.S. industry and consumers. We are seeking also to develop closer bilateral relations with customs administrations in other countries, particularly those who are major trading partners of the United States.

While it is important that we emphasize law enforcement and revenue collection functions, we are well aware that this must be done in a manner to facilitate the movement of people and cargo across our borders. Most of our clients are law abiding. Rather than to subject them to antiquated time delaying processing methods, which produce relatively insignificant seizures, we plan to implement innovative and selective processing techniques. We also plan increased emphasis on special enforcement operations to target against potential violators and to allow the majority of customs processing to be facilitative.

In addition, we will develop performance standards and special goals in both passenger and cargo processing.

Customs also suffers from regulatory burdens. The paperwork burden in Customs has increased dramatically. We therefore plan to assess, and in fact are presently doing that, existing laws and regulations to determine which ones are no longer appropriate and can be eliminated. The routine workload and paper processing burden will be reduced, thereby increasing our efficiency in this area.

This concludes my introductory statement, Mr. Chairman. We would be pleased to discuss any of the details of our request.

Prior to that, if I might, Mr. Chairman, I would like to quickly introduce the people at the table. To my far right is Richard Abbey, who is the chief counsel of Customs. Next to him is Jack Lacy, the Comptroller of Customs. To my right is Wayne Hamilton, the budget officer of Customs. To my far left is George Corcoran, who is Assistant Commissioner for Border Operations, which is basically the law enforcement arm of Customs. To my immediate left is John Simpson, who is the Director of the Office of Regulations and Rulings and is presently Acting Assistant Commissioner for Commercial Operations.

Senator DANFORTH. Therefore, what we are looking forward to is a reduction in total personnel by 2,304?

Mr. ARCHEY. That is correct.

Senator DANFORTH. And at the same time an increase in enforcement?

Mr. ARCHEY. That is correct. We are moving toward more selective operations, particularly in the cargo examination area. We have historically been dealing with the saturation approach, which has not brought a lot of results. Basically, the new approach is going to be an increased use in profiles and in the special enforcement teams. We think the results so far this year indicate that is a very positive way to go. We are way up in all of our drug seizures with the exception of a slight decline in marihuana. But we have increased our seizures by 300 to 400 percent in both cocaine and heroin.

Senator DANFORTH. These 2,304 fewer personnel, will that include a reduction in enforcement personnel? Basically, what I am

asking is, what is going to give? What part or parts of your activities are going to feel the brunt of the reduction?

Mr. ARCHEY. There will be a reduction in full-time permanent positions of approximately 1,100 inspectors. In the patrol and investigative areas, there will be a reduction in full-time permanent positions of approximately 97 Customs patrol officers and 35 Customs agents. The predominance of the cuts is going to be in inspectors. We presently have about 4,400 inspectors. It is the largest single category for personnel in the Customs Service. The other cuts are spread over a number of activities. We are also hoping to reduce administrative costs. As this committee knows, we have a proposal to reduce the number of regions in Customs, which would result in a savings of approximately 267 positions. There will be a reduction of about 200 import specialists because we are attempting a concept called centralized appraisement, where we are going to reduce various full-service centers throughout the country from 70 to 35.

Senator DANFORTH. Do you think we should be concerned about those reductions?

Mr. ARCHEY. We think that, given these reductions, we can still do an excellent job. My response to that is that we feel that we should be held responsible for getting the job done within this budget. We think we can do it.

Senator DANFORTH. Senator Bentsen?

Senator BENTSEN. I am concerned about the reduction of that magnitude at the time we are seeing quite an increase in traffic and duties. I understand that the Customs Service collects about 18 times as much as it costs. I also understand, what is more important, that on the margin they would collect about three times what they cost.

So, when we talk about increasing the IRS, saying that is going to bring in more money, I think that is true. I do not know why we follow the contrary philosophy on the Customs. All the figures I have gotten, Mr. Chairman, say that on the margin you will collect about three times what it actually costs.

That does not add up to me.

I am pleased to see that you are saying on your tactical interdiction forces that you do more in the Southeast. I assume that also includes the Texas-Mexican border. We have got a situation down there in many of those counties, even with farm prices depressed and bad crops, there are a lot of folks driving new pickups and have new houses. A lot of them are paid for by drugs coming across that border. We all know it.

We see a situation where the Coast Guard has had a major increase in its responsibilities and yet an actual reduction in craft, making it even more difficult for it to carry on its responsibilities.

I see a situation where they have transferred about three DEA officials out of Texas over to Florida. They have done a temporary transfer of a bunch of Customs people, I believe. That concerns me.

All I hear from you is that you are just going to work smarter and get the job done better. I hope that is right. I do not know what was wrong with the crowd ahead of you then.

Mr. ARCHEY. In response to a couple of the items that you mentioned in terms of the revenue aspects, when I was in the Treasury Department 4 years or 5 years ago I oversaw a study regarding

Customs trying to, in fact, adopt the IRS model for revenue raising. It generally does not apply. The difference, is due to the fact that at the taxpayer compliance program at IRS there is no question about the correlation with the additional revenue raised as a result of the increased audits. The way our revenue is raised, $9.3 billion last year, we only have as accounts receivable approximately $180 million. Most of the funds are collected within 10 days on the basis of deposit of estimated duties.

We have found that, in terms of the raising of revenue, it does reach a point of diminishing returns. The more audits you do in IRS——

Senator BENTSEN. I am sure that is right.

Mr. ARCHEY. The second point, as far as the activity in the Southwest, there is some indication that, in fact, displacement is beginning. It is very preliminary, but there is some indication that displacement from south Florida to the other parts of the gulf and probably into Texas is beginning.

As an example, I would cite to you the fact that in the last 2 weeks we have not had a single detection of an airplane that would be potentially carrying drugs coming into south Florida. Prior to that, we were spotting, not always catching but spotting three to four a day.

Senator BENTSEN. What have they done? Have they moved over to Texas?

Mr. ARCHEY. Right now—and Mr. Corcoran may want to comment on this—what we have discovered is that basically they are laying very low. There is not an awful lot of movement other places. There is some indication——

Senator BENTSEN. You know, one of the ways to make them lay low is if you have strong forces, and they understand that. I have had some personal experience in this problem. I owned an interest in a 210 Cessna. They moved a plane out in front of it sometime during the night down on the border. They wired across the ignition, flew it out of there, and I have not seen it since. I understand that is one of the favorites of the drug smugglers. For all I know, that is what it is doing these days. There has not been any successful interdiction that I know of. At least the plane has not been returned to me.

Mr. ARCHEY. We have a problem all through the country and particularly along the gulf and south Florida on stolen planes, stolen aircraft. Last year we seized close to 200 planes. I do not know the percentage--I do not know if we have those figures, but it is a very large percentage that are stolen.

Do you have any comments about displacement, George?

Mr. CORCORAN. We do know that, compared to an operation we ran in the fall, where we seized about 45 aircraft in a 90-day period, in addition to those that we caught, the traffic was quite heavy with suspected intruders. Right now it is almost at zero on a day-to-day basis. We have had two intrusions of aircraft since our operation began. However, we still have a great deal of activity on vessels and cargo.

Senator BENTSEN. I am a flier. You said you had two aircraft. I used to fly across that border regularly. I used to have a place

down in northern Mexico that I owned. As far as tracking planes going across that border, it is an incredible job.

Mr. CORCORAN. It certainly is.

Senator BENTSEN. You do not really have radar surveillance along there that is adequate.

Mr. CORCORAN. I was talking about Florida, sir.

Senator BENTSEN. I am talking about Texas.

Mr. CORCORAN. In Texas we do have increased FAA sightings, which does indicate to us, as Mr. Archey mentioned, that we are getting diversion. When we say sightings, we are talking about aircraft that are flying at unusually low altitudes and are not flying by flight plans, that we are sighting with our FAA and our own aircraft, and which appear to us not to be legitimate flights. These are on the increase over in the Texas area and the New Orleans area. We recently had one aircraft that was seized up in Tennessee that came in through the New Orleans area.

Senator BENTSEN. You have got about 1,000 miles of border there, Mr. Chairman. It is brush country. You can fly along at 200 feet. All you are going to spook is a bunch of goats. You are not going to see anybody. They can come across just about any place that they want to.

I have a letter here from the Department of Treasury that tells me about the additional revenue with a thousand personnel to be allocated to the categories of import specialist, auditor, special investigator, and inspector. It says approximately $100 million in additional revenue could be collected. That represents a marginal return of 3 to 1. I do not know a lot of investments that give you that kind or return. It looks like a pretty good return on the taxpayers' money.

You talk about the amount of traffic. You know, we have more traffic through Laredo, Tex. border there than they do at Kennedy. There are about 13 million people coming through there at Laredo; you have about 4 million at Kennedy. The problems we are having are in delays. It is not just a matter of apprehension. It is a matter of delaying people being processed because of what I think is a shortage of personnel. The personnel would pay off for the taxpayers; that is my concern.

Senator DANFORTH. Thank you very much.

Mr. ARCHEY. Thank you, Mr. Chairman.

Senator DANFORTH. Next is Mr. Vincent Connery on behalf of the National Treasury Employees Union.

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT OF THE NATIONAL TREASURY EMPLOYEES UNION, ACCOMPANIED BY JERRY D. KLEPNER, DIRECTOR OF LEGISLATION

Mr. CONNERY. Senator Danforth and distinguished members of the subcommittee, I am Vincent Connery, national president of the National Treasury Employees Union. With me today is Jerry Klepner, our union's director of legislation. NTEU is the exclusive representative of over 120,000 Federal workers, including all employees of the U.S. Customs Service worldwide.

We have prepared a detailed statement on the fiscal year 1983 authorization of appropriations for the Customs Service. We urge

the subcommittee to devote careful attention to this information and ask that it be included in the record of these hearings.

Senator DANFORTH. Without objection, it will be made a part of the record.

[The prepared statement of Vincent L. Connery follows:]

Statement of

Vincent L. Connery

NATIONAL PRESIDENT

and

Jerry D. Klepner

DIRECTOR OF LEGISLATION

NATIONAL TREASURY EMPLOYEES UNION

to the

SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE

HON. John C. Danforth

CHAIRMAN

Authorization for Appropriations of the

U.S. Customs Service

U.S. Senate

Washington, D.C.

April 14, 1982

Mr. Chairman and distinguished members of the Subcommittee:

I am Vincent L. Connery, National President of the National Treasury Employees Union. With me is Jerry D. Klepner, our union's Director of Legislation. As the exclusive representative of over 125,000 Federal workers, including all employees of the U.S. Customs Service worldwide, we are pleased to appear before you today to discuss the authorization of appropriations for the U.S. Customs Service for Fiscal Year 1983.

This will be the fourth major inquiry conducted by the International Trade Subcommittee into the mission, needs, and resources of the U.S. Customs Service since the annual authorization of appropriations was mandated by the Customs Procedural Reform and Simplification Act of 1978 (L.L. 95-410). Previous reports of the Subcommittee have taken note of the critical shortage of resources handicapping the Service's ability to enforce the customs laws of the country, in the face of rapidly escalating growth of foreign commerce, international travel, and drug traffic.

These reports have stressed the necessity of finding solutions to an intolerable situation in which Customs is emerging as a bottleneck to the free movement of persons and goods at the nation's ports of entry. This Subcommittee has taken the lead in strengthening Customs' aerial drug interdiction program, in ensuring Federal monitoring of petroleum and steel imports, and in requiring the test of new passenger processing techniques capable of speeding the flow of air travelers while not diminishing enforcement of the customs and immigration laws.

Based upon this background, it is with high hope that we welcome the present Congressional oversight of the U.S. Customs Service. In the face of the extraordinary circumstances stretching Customs to the limits of its capacity, decisions are urgently required to eliminate the present obstacles to international trade and tourism while safeguarding America's frontiers from the current tidal wave of illegal immigration and drug

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traffic.

In the search for solutions to this situation, we wish to underline three basic points:

* first, it has been recommended on countless occasions that additional personnel and other resources are needed to perform effectively;
* second, it is extremely unwise to make economies, as has been the practice in recent years, at the expense of a law enforcement arm such as the Customs Service, because reductions only rebound as long-run costs in other parts of state, local, and Federal budgets;
* third, the Congress must continue to take the lead in formulating sound program and budget policies for the Customs Service, because the Administration's budget proposals have been totally unrealistic. These recommendations have totally ignored our expereince at our air, land, and sea ports, and have exacerbated a critical situation by causing Customs management to adopt policies that have created wide areas of minimal enforcement or non-enforcement.

Last year, the Subcommittee authorized $480 million for the Customs Service. In September, through the appropriations process, the Administration attempted to reduce this amount by $29 million, including a cut-back of 300 Inspectors, 200 Import Specialists, and 100 Customs Patrol Officers. Congress, however, refused to go along. In the Continuing Resolution which provided funding for FY 1982, Congress provided $493.7 million and 13,200 staff-years, and directed the Administration to maintain Customs employment at the level of April 30, 1981.

We are also pleased to note that the House Subcommittee on Trade will soon consider an authorization bill introduced by Chairman Gibbons which funds Customs at a level of $574,801,000. This amount includes $31 million for Alcohol and Tobacco functions, but nonetheless maintains current

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Customs staff levels.

The congressional intent to maintain the strength of the Customs Service and to prevent further reductions in personnel was expressed in two separate enactments during 1981, the Continuing Resolution and the Supplemental Appropriations and Recission Bill of 1981. Nevertheless, the Administration now proposes a Fiscal Year 1983 budget that would cut 1,338 staff-years from the Service below the level of the FY 1982 Continuing Resolution. (This cutback is in Customs Service functions, and is independent of the proposed merger of the alcohol and tobacco regulatory functions of the Bureau of Alcohol, Tobacco and Firearms with the Customs Service.)

The Administration plans to achieve this reduction through a hiring freeze and attrition of 400 positions during the year, and a reduction-in-force (RIF) of 638 positions beginning this October 1. This program would entail a loss of 678 Inspectors, 100 Import Specialists and 54 Customs Patrol Officers through both RIF and attrition.

If the RIF is delayed until January 1, 1983, as Customs now plans, the number of persons discharged through RIF procedures would rise to 1,504, or approximately 14 percent of the presently authorized strength of the Customs Service. Coupled with the loss of 400 positions through attrition, this would yield a total reduction of 1,904 employees, including 873 Inspectors, 239 Import Specialists, and 97 Customs Patrol Officers.

Even these reductions are contingent upon favorable congressional action in two areas:

* first, the Administration plans to impose aviation user fees that would collect $6 million, and use these funds to support 300 Inspector positions on a reimbursable basis. If Congress fails to approve this plan, the required reduction-in-force could be 300

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positions greater, rising to 2,204 positions;

* second, the Administration has requested a supplemental appropriations for FY 1982 of $22,346,000, which would permit the alcohol and tobacco regulatory functions being transferred to Customs to be sustained at an operating level of 719 staff-years. While final action has been delayed beyond the original transfer date of April 1, 1982, we urge the Subcommittee to monitor the situation to ensure that the Customs mission is not jeopardized by the ATF reorganization. Because the alcohol and tobacco program is predicated upon a 719 staff-year level of effort, and only 360 staff-years have been funded by the Administration for FY 1982, it is necessary that Congress grant the requested supplemental. If Congress fails to do so, Customs would have to undertake an additional RIF of 359 positions. It is likely that the bulk of such a RIF would be taken from Customs functions, since alcohol and tobacco regulation has already been pared considerably, and the collection of $8.2 billion in alcohol and tobacco excises would be jeopardized.

With regard to FY 1982, the Administration has not yet submitted, nor has Congress had the opportunity to consider, a pay supplemental to cover the 4.8 percent pay raise that became effective last October. Until such a supplemental is submitted, we do not know how much of the pay requirement, if any, the Administration would force Customs to absorb. We believe that any such action on the part of the Administration would result in a reduction in positions, and would violate the specific mandate of Congress not to effect a reduction in Customs strength below the level of April 30, 1981.

This budget proposal hardly squares with the Administration's avowed determination to crack down on the rising tide of violent crime, narcotics trafficking, and illegal immigration that is sorely afflicting this

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country. Last year, the Attorney General's Task Force on Violent Crime strongly recommended additional resources for Federal law enforcement agencies as the single most significant step the Federal government could take to stem the present wave of crime. The Task Force stated:

> "We wish to emphasize that the Federal Government's first priority should be to provide adequate resources to its own offices which are involved in fighting violent crime and to assure that its policies are clear and sound in all matters which impact on state and local law enforcement."

The Task Force also called for "a clear, coherent, and consistent enforcement policy with regard to narcotics and dangerous drugs", to include "a border policy designed to effectively detect and intercept the illegal importation of narcotics, including the use of military assistance." Yet Customs, which is on the front line in this struggle as the nation's principal border enforcement agency, is to be reduced by 742 staff-years in its Inspection and Tactical Interdiction resources under the Administration's budget proposal.

Nowhere is the duplicity of the Administration more evident than in the contrast between the resources provided in its budget and its anti-crime rhetoric. The Administration's proposal would result in the wholesale dismantling of the protections afforded the American businessman, the American worker, and the public through effective enforcement of the Customs laws. Once again the burden is on Congress to formulate a rational policy, and to begin this year by providing

essential resources to eliminate the congestion at our ports of entry, stem the decline in enforcement and lay the foundation for a modern, effective Service in the future.

We welcome the opportunity to participate in this task as the representative of the thousands of dedicated Customs employees whose service is of inestimable value to the nation, yet who have been remarkably ill-served by this Administration.

In the remainder of our testimony, we would like to call the Subcommittee's attention to today's challenges to Customs law enforcement, and the environment in which the Service must accomplish its mission. We would then like to discuss the major problems and issues in each of the principal areas of Customs activity: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also present our views on the proposed absorption of the alcohol and tobacco regulatory functions of the Treasury Department. We will conclude with recommendations for an alternative budget for Fiscal Year 1983.

The Challenge to Customs Enforcement Today

As the nation's principal border enforcement agency, the Customs Service is responsible for processing the flow of merchandise and travelers at over 300 ports of entry, and for interdicting the movement of illegal narcotics and contraband between these ports. With approximately 15,000 full and part-time personnel, Customs is responsible for a frontier that is 26,000 miles in length as the crow flies, and 100,000 miles if measured by the length of the tidal shoreline. By contrast, many other developed countries have a much larger force to carry out the customs mission. For example, the German Customs Administration employs 34,700 persons, yet the

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frontier of the Federal Republic is only 2,000 miles long.

The question before the Congress today is whether Customs is to be provided the resources needed to effectively carry out the customs laws. These laws were passed by Congress to protect important American interests. In recent years, as the economy has become increasingly open to foreign trade, and international travelers have visted our country in record numbers, challenge of enforcement has increased and brought with it a requirement for additional resources. The question then becomes one of weighing the cost of the additional resources against the cost to society of non-enforcement of the customs laws.

The following are examples of important American interests that are protected by Customs, and where lax enforcement would be extremely costly to the economy and society:

1. Interdicting the drug trade.

The retail value of illicit drugs supplied to the U.S. market in 1980 is estimated by the Drug Enforcement Administration (DEC) to be $70-90 billion, well above the estimated $56-73 billion in 1979 and almost double the $44-63 billion in 1978. Today, in America, there are an estimated 400,000 to 450,000 heroin addicts, 25 million people who use marihuana at least monthly, 10 million cocaine abusers, and more users of dangerous pills such as quaaludes than ever before.

The burden of drug use has a significant impact on the health care system, the criminal justice system, the employment market, and the social services system. The Strategy Council on Drug Abuse has estimated that the social cost of drug abuse is $10 billion annually. In the first quarter of 1980, 60,000 persons were admitted to

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federally funded programs for drug abuse of all types, according to the National Institute on Drug Abuse. This is a rate of 240,000 admissions annually, up 10 percent over 1979.

Of special concern is the impact that drugs smuggled into this country have on our youth. The Director of the National Institute on Drug Abuse has testified that "our young people still show the highest level of drug use of young people anywhere in the industrialized world." In 1980, 9 percent of our high school students used marihuana daily. The number of young adults, age 18-25, using cocaine is estimated at 1,100,000.

An estimated 90 percent of the drugs abused in this country come from abroad. The Chairman of the House Select Committee on Narcotics Abuse and Control testified last year that, according the best government estimates, no more than 10 percent of the drug traffic is interdicted. Last year, between 40 and 48 tons of cocaine were imported, and between 10,600 and 15,500 tons of marihuana were consumed. Much of this was flown into the country by sophisticated aircraft. Customs estimates that, of an estimated 7,000 sorties a year entering the country, only about 1 percent are successfully interdicted.

The regional impact of the illicit drug traffic is particularly severe in the Southeastern United States. According to Customs and DEC, an estimated 70 percent of the cocaine, 80 percent of the marihuana, and 90 percent of the quaaludes smuggled into the United States come through Florida, Georgia, and the Carolinas. In Florida alone, the drug traffic is estimated at $7-10 billion annually. This amount is not only untaxed, but is severely distorting the local economy, particularly the real estate market. In a column from Miami on November 22, 1981, titled "The Cocaine Lords are Winning",

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James J. Kilpatrick summed up the reaction of a dozen local police chiefs:

> "What's wrong with Congress? the chiefs ask. Why doesn't Congress act on these things?"

The high rate of drug use in the nation is intimately linked with the rising rate of violent crime, which increased 9 percent between 1979 and 1980. The Attorney General's Task Force on Violent Crime stated:

> "Throughout the course of our hearings, a recurrent theme has been the importance of more effectively combatting narcotics traffic. From Washington to Los Angeles, from Detroit to Miami, we have heard officials and scholars stress the connection between drugs and violent crime."

Customs Inspectors, Customs Patrol Officers, and Special Agents play a vital role in the war against drug traffic. Sufficient resources to maintain and improve Customs' tactical interdiction capability are absolutely crucial. We urge the Subcommittee to immediately increase the tactical interdiction resources of the Customs Service on land, sea, and air in order to make greater progress against cocaine and marihuana flooding into Florida and other Southeastern and Gulf Coast states from Latin American.

2. Halting Illegal Immigration.

The Customs Service participates in the control of illegal immigration at land border ports and outports where no Immigration and Naturalization Service (INS) Inspector is available, and at airports where Customs and INS Inspectors are cross-trained to perform each other's missions. The magnitude of illegal immigration into the country, and the attendant social consequences (lost jobs, lower wages, sweatshop working conditions, and strained community services), is fueling the call for better enforcement at our nation's frontiers.

The Administration, seemingly, has placed itself at the head of this movement. After receiving the report of the bi-partisan Select Commission on Immigration and Refugee Policy last year, the Attorney General submitted legislative proposals to Congress in July. The Administration pointed out that there are currently between 3.5 million and 6 million people in the United States illegally --at least 50 percent from Mexico. Moreover, about 1 to 1.5 million persons entered illegally in 1980. Calling for enactment of the President's program, the Attorney General stated:

> "There is only one real issue in the debate over our devastating immigration problem: will the nation at last summon the will to take the necessary steps to solve it? Or will the neglect of decades continue, posing the possibility that the problem quite soon will be beyond reasonable hope of correction?"

The Attorney General is right, of course, in calling this a devastating problem. But it is difficult to see how the Customs Service personnel reductions serve the cause of halting the tide of illegal immigration. We urge the Subcommittee to recognize the joint role of Customs and INS in carrying out this important mission, and to allocate the additional resources necessary to secure our society and ecomony from this growing burden.

3. Protecting the American Automobile Industry

As this Subcommittee is acutely aware, the domestic automobile industry is in the throes of an unprecedented crisis and the question of restricting foreign automobile imports is very high on the national agenda. During 1981, foreign imports as a percentage of total automobile sales rose to the highest level in history, 27.2 percent up from 26.7 percent the year before. At the end of December 1981, 213,000 automobile workers were on indefinite layoff, compared to

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190,00 a year earlier.

At the present time, the Customs Service is responsible for monitoring the volume of automobile imports, ensuring compliance with U.S. emission control standards, classifying shipments in accordance with the U.S. tariff schedules, and collecting appropriate duties. While the Japanese have instituted a policy of voluntary restraint aimed at restricting automobile exports to this country to 1.6 million units a year, figures show that 1,778,495 units were imported from Japan in 1981.

It is unclear whether additional relief will be needed to save American jobs and help rejuvenate an ailing industry. Should a quota be adopted, or an orderly marketing agreement formally placed into effect, it is clear that the burden of administering such a policy will fall squarely upon the Customs Service. Considering the real possibility of such action, and the important national interest involved, the shortsightedness of a cutback in the Inspectional and Classification and Valuation resources of the Customs Service at this juncture becomes readily apparent.

In this connection, Mr. Chairman, we would like to note the warning sounded in the report of the Congressional trade delegation which visited the Far East last summer. The report of the delegation pointed out that Japan has traditionally protected its new industries from import competition while fostering their growth and promoting their exports. Only when Japanese industries were world-class did Japan liberalize her trade barriers and permit competition in its domestic market. The report stated:

> "We do not know if it (Japan) will repeat itself in the new industries of the 1980's, such as genetic engineering, software and aviation, but the U.S. must be prepared to prevent this pattern from recurring."

If this goal is to be achieved, Mr. Chairman, protecting American industries through import restrictions of our own is one of the many policies that will to be considered, and we submit that this country should not unilaterally disarm itself in this regard by failing to provide adequate resources for its Customs Service. From what we understand, Japanese Customs has been quite successful in protecting Japanese markets through both visible and invisible barriers to trade.

4. Protecting the Domestic Steel Industry

In a similar vein, the difficulties of the U.S. steel industry in recent months serve to illustrate the Customs role in safeguarding another vital national economic interest. As you are aware, implementation of the steel Trigger Price Mechanism (TPM) from October, 1980 until its recent suspension on January 11, 1982 was a Customs responsibility. For each steel shipment to this country, Customs determined volume, price and country of origin data, computed an adjusted price for the shipment and an associated trigger price, and forwarded this information to the Department of Commerce and the International Trade Commission for a determination of whether dumping had occurred and whether there had been any injury to domestic industry resulting from these imports.

On January 11, 1982 the TPM was suspended by the Administration when several major domestic steel producers filed complaints with the International Trade Commission alleging that certain foreign producers violated the anti-dumping and countervailing duty laws. On February 18, 1982 the International Trade Commission ruled that most of the complaints filed showed a reasonable indication of material

injury to the domestic steel industry.

The TPM is a good example of what happens when a new mission is imposed upon the Customs Service without providing the additional resources required for its accomplishment. At the height of the TPM, the Customs Service had committed approximately 150 Import Specialist staff-years to this function because of the high priority assigned by the Congress and the Administration. Customs testified during last year's authorization hearings that this resulted in increased entry backlogs in other product lines, with the consequent degradation of the appraisement function and service to importers in these other lines.

While the TPM is not presently in effect, the data collection capability of Customs must remain in place should it be reinstated at some future point. The entire experience points to the need for adequate Customs resources so that the Service will have the necessary flexibility to meet new responsibilities without detracting from other important missions.

5. Serving a Growing Domestic Tourism Industry

One of the major factors affecting Customs resource needs is our national policy of encouraging foreign visitors to this country. This has led in recent years to the rapid growth of passenger arrivals at our air, land, and sea ports, visibly taxing Customs processing capabilities. Moreover, as many of our cities and regions seek to participate in the growing tourist trade by becoming international gateways, the inability to provide adequate Customs personnel to staff these new facilities is becoming painfully apparent.

This country has too much to lose by allowing Customs to become a hindrance to the further development of our expanding tourism industry. Foreign visitors are now coming to the U.S. at the rate of 22 million a

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year, about 8 million from overseas. In 1980, these visitors spend an estimated $12 billion while in the United States, producing approximately $1.4 billion in Federal, state and local tax revenues. Moreover, between 1970 and 1979 these expenditures grew by more than 250 percent, well ahead of other measures of economic activity.

After the top three American exports --chemicals, motor vehicles and parts, and grain and cereal preparations-- tourism brings in the most revenues among U.S. export earnings.

The domestic travel and tourism industry is now the third largest industry in the United States, employing more than 6 million Americans and producing more than $118 billion in annual sales. Commerce Department statistics show that more than a million establishments benefit directly from foreign tourists' spending in this country. More than 95,000 U.S. jobs were directly supported by foreign visitors' food purchases alone in 1978.

Regionally, the New England states aim from the Canadian market, while the Southwest aims for the Mexican market. Canada and Mexico have consistently accounted for the largest number of foreign tourists entering our country. According to the U.S. Chamber of Commerce, Miami and St. Louis have launched extensive efforts to attract British visitors. Tourists from West Germany, Japan, and France are also being eagerly sought by our aerial gateways.

In 1980, for the first time, the number of foreign visitors from overseas (more than 8.1 million) outnumbered the number of Americans who visited overseas. This trend has continued. Along with the rapid growth of international passenger arrivals at our airports (approximately 12 percent a year), the increasing proportion of aliens is presenting a new challenge to Customs Inspectors responsible for processing these visitors. At the same time, the advent of wide-body

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aircraft has led to frequent congestion and overtaxing of facilities. As is well-known, even greater delays within the inspectional facility are routine, caused mainly by the shortage of Inspectors.

At the request of the Trade Subcommittee, Customs, INS and the Department of Agriculture have been testing at Miami and Los Angeles a new Federal inspection procedure known as ASIST, the Accelerated Special Inspection System Test. We understand that a report evaluating the new procedure from the standpoint of both passenger facilitation and enforcement is due to be submitted to the Subcommittee in the near future. Inasmuch as the report has not been completed, we are unable to comment on the ASIST program at the present time.

Nevertheless, recent experience makes clear that if the U.S. is to exploit its natural advantages as a mecca for foreign visitors, the Customs Service must be provided with an adequate number of Inspectors to reduce present congestion and accommodate the expected growth in future traffic. The Air Transport Association has estimated that an additional 230 Inspectors are needed immediately at our airports. Many of our land border ports are also experiencing lines 2-3 hours long, e.g., San Ysidro and Niagra Falls, and this imposes an additional requirement.

We strongly urge the Subcommittee to consider the needs and the potential of the domestic tourism industry in weighing the benefits of providing the Customs Service with adequate resources. Certainly the advantages to the nation's economy and balance of payments, plus the additional tax receipts accuring from tourist expenditures, would far outweigh the cost of several hundred additional Inspectors.

6. Safeguarding American Agriculture

One of the principal missions of the Customs Service is to

prevent the introduction into this country of foreign plant and animal pests that would endanger American agriculture. The paramount role of agriculture in the U.S. economy, and the large costs of eradication should an outbreak occur, argue for an adequate level of baggage inspection at our ports of entry.

For the most part, the U.S. Customs Service performs primary inspection of international air passengers. Based on the declaration form, the finding of agricultural items, and in some cases, a passenger profile provided by the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture the Customs Inspector may refer the passenger to a Plant Protection and Quarantine Officer for secondary agricultural inspection.

Last year, before the Mediterranean fruit fly became a household word, we pointed to the fact that the Agriculture Department had exhausted its contingency funds for combatting this pest which feeds on over 800 different fruits. Now that we are over last year's crisis in California and Florida, it is sobering to note that a general infestation of the Medfly in the United States would cost an estimated $200-250 million annually in losses to agriculture.

The U.S. has not had an outbreak of Foot and Mouth Disease since 1929, and it is estimated by the Department of Agriculture that it would have a $10 billion impact on the livestock industry during the first year if introduced into this country today. African Swine Fever is another animal disease which may enter the U.S. through pork products contained in passenger baggage or airline waste. There is no known treatment for this disease, and the initial economic impact in the U.S. would be $2 billion in losses the first year.

The soil from plants carried by an unwary traveler serves as a natural carrier for nematodes and many other pests. Potential crop

losses could increase 5-10 percent if additional nematodes are introduced into this country, according to the U.S. Department of Agriculture.

Passenger-carried meat and meat products also pose a serious threat. In FY 1980, 123,128 individual lots of meat and meat products totaling 305,635 pounds were confiscated from arriving air travelers. All of these products represented a potential source of animal disease that could severely damage our livestock industry.

In the past, this Subcommittee has taken a firm stand on the importance of adequate agricultural inspection as a safeguard that must not be relaxed. This position is fully documented in last year's report on the Customs authorization bill. We urge the Subcommittee to persevere in this course, and to consider the paramount requirements of American agriculture in its deliberations on the adequacy of Customs resources.

7. Preventing the Export of Critical Technology

One of the largest areas of Customs staffing deficiency is the outbound clearance of exports. Such capability is virtually non-existent. Faced with a rising tide of imports, the resources for monitoring exports have gradually been withdrawn. Even spot-checks of outbound shipments are seldom made.

The costs of such negligence are now being driven home by the discovery in recent months of a pervasive pattern of activity by Soviet agents to pry away the secrets of American high technology by offering bribes and huge sums of money to obtain products on our export control lists. Their targets are lasers, fiber optics, computers, microelectronic devices, and telecommunications equipment.

In 1980, the president of Spawr Optical was convicted of shipping

about 50 high-energy laser mirrors to a laser research laboratory in Moscow. After being denied an export license for shipment of the mirrors, Spawr deliberately understated their value to the Customs Service and made the delivery through Swiss and West German intermediaries. Intelligence sources told the court that the mirrors may have been used in tests of Soviet anti-satellite weapons.

Two years ago, two top officials of a California computer firm were convicted of shipping more than $1 million worth of computer machinery to the Soviet Union without a license. The computer machinery was crated with air conditioners and washing machines and sent through Germany and the Netherlands to Moscow.

According to an article in The Washington Post last spring, the FBI has investigated at least 30 cases in which the Soviets offered bribes to buy lasers and fiber optics that were on the export control list. Lasers have military uses in space. Fiber optics can be used to make small, secret communications devices. FBI Director William H. Webster is quoted as telling the Washington Post:

> "The Russian targets are no longer weapons and strategy. The emphasis is now on technology, and they will go to any lengths to get it."

After investigating the effectiveness of U.S. export controls last year, The New York Times concluded:

> "Despite the growing concern of government officials that sophisticated American technology and arms are being illegally shipped to unfriendly nations, including the Soviet Union, the Federal agencies charged with administering the export control laws remain understaffed and their enforcement efforts are spotty."
>
> "According to Reagan Administration officials, the Government makes relatively few inspections of outbound shipments, prosecutions are rare, penalties are comparatively light and there is a backlog of unfinished investigations."

In the same article, a Customs official is quoted as stating that the Service would need 565 additional Inspectors for a nationwide

inspection program. The offical noted that, "As a matter of routine, we don't inspect outbound shipments." He said that Customs did some spot-checking and planned to do more, but added that it was relatively easy to export items illegally. Lastly, officials of both the Commerce and State Department's export control offices were reported as agreeing that an intensive program of spot inspections would serve as a serious deterrent.

Because of its physical presence at the nation's frontiers, with control over both inbound and outbound shipments, Customs is at the present time the principal export control arm of the Federal government. It enforces two basic laws:

(1) The Arms Export Control Act (22 USC 2778).

This Act concerns the export of arms, ammunition, implements of war, and other military technology. The Office of Munitions Control of the Department of State administers the Act, issues regulations concerning controlled commodities, and grants export licences. The Customs Service is responsible for enforcing the Act and investigating violations.

(2) The Export Administration Act of 1979 (50 USC 2401)

This Act concerns products and technologies which may have both peaceful and military applications, whose export is controlled for reasons of national security, foreign policy, or short supply. The Act is administered by the Office of Export Administration of the Department of Commerce, which issues lists of controlled items and export licenses. Customs participates in export inspections and investigations of violations of the Act.

Recently, because of widespread interest and the personal intervention of the President on behalf of stricter enforcement. Customs launched "Operation Exodus," an experimental export enforce-

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ment program, at 10 major ports of entry. At each port, one or more three-man teams, consisting of an Inspector, a Customs Patrol Officer, and a Special Agent will conduct spot-checks of outbound shipments and follow up investigative leads. The teams will be supported by designated Import Specialists and Regulatory Auditors. Altogether, 34 teams will be operational at the 10 ports during 1982. The program will last 9 months and then be evaluated.

It is symptomatic of the shortage of resources in Customs that no more than 130 personnel in toto will be assigned to this vital program. This is another example of a failure to provide the resources required for a new mission. The inevitable consequence is that Customs will have no divert resources from other priority areas. The effect on those areas is the same as a cut in staff. In this case, 35 Inspectors, 34 Customs Patrol Officers, and 10 Import Specialists and Regulatory Auditors will be withdrawn from line functions in order to staff Operation Exodus.

Without a doubt, this is an area that requires serious study by the Subcommittee. We have continually pointed to the deficiency in outbound clearance of both vessels and aircraft as a prime example of reduced enforcement occasioned by the lack of adequate resources. Here again, the cost of providing the necessary resources is far outweighed by the present cost to the nation of illegal exports of critical technology.

PROGRAM, BUDGET, AND POLICY ISSUES

Let us turn now to a discussion of the workload and resources in each of Customs' functional areas: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also focus on the major issues that deserve consideration by the Subcommittee.

Inspection and Control

There is a large and growing workload/resource imbalance in the Inspection and Control function of Customs, due to the continued growth of international trade and tourism, and personnel cutbacks. Some significant indications of the Customs workload in this area are:

* U.S. merchandise imports, by volume, have been growing at an 8 percent annual rate during the past decade, and are projected by Customs to continue growing at this rate through 1985.
* Commercial airline passenger arrivals from abroad have been growing at a 12 percent annual rate in recent years, and increasing by about 3 million a year.
* Total persons arriving from abroad at our air, sea, and land ports of entry will increase by 13.5 million between 1982 and 1983.
* Cargo imports by air have been growing at a 14 percent rate in recent years, and are projected to increase to 1.5 million tons in 1983, double the level in 1978.

Customs resources in the Inspection and Control area are indicated in Table 1, which shows the trend in the number of Inspectors compared to Customs total employment since 1972. While there was an increase of 200 Inspectors during FY 1981 and 1982, this gain would be totally eliminated by the reduction of 400 Inspectors proposed by the Administration. This would reduce Customs to the number of Inspectors it had in 1974, despite a 72 percent growth in merchandise imports and a 17 million increase in air passenger arrivals since that year.

The workload/resources imbalance is further illustrated by Exhibit I, appended to our testimony. This charts the actual and projected workload to 1985, and compares this workload to Customs outlays in constant dollars. The results are striking. All the workload trends are rising. However, Customs resources, in terms of real

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outlays, stay at about the 1975 level. This fact is further confirmed by the Inspector data in Table 1, which shows no increase in the number of Inspectors since 1975.

These few facts clearly demonstrate the crux of the problem confronting the Customs inspectional force today. Workload continues to rise, yet the number of Inspectors remain stable. As a result of increased demands from importers and carriers, the static work force is required to put in longer hours on the job. Overtime mounts and becomes the principle resource utilized to accomodate the growing demand for service.

As the workload continues to outstrip the capacity of the Inspectional force, the point is ultimately reached where concessions are made in the form of reduced enforcement. Sadly, countless signs of this erosion abound in the Service today. Some prominent examples are:

* Customs has been inspecting less than 1 percent of all containerized shipments, despite clear evidence of increased drug seizures and revenues accruing from improved enforcement. Last year, the number of containers inspected fell to 0.3 percent of the total number imported.

* At many coastal ports, private vessels such as boats and yachts arriving from foreign destinations have been placed on a virtual honor system with regard to Customs inspection. Owners are permitted to notify Customs telephonically within 24 hours of arrival, and the formalities usually consist of negative replies to a few questions. Customs attempts to keep this system functioning through spot-checks, but only a tiny fraction of arrivals are even inspected.

* Customs has gone to a system of general supervision of vessel unloading. Instead of one Inspector assigned to a ship, the Inspector may now perform inspections at docks miles apart, and must leave one site for another even though his or her presence would be a deterrent to smuggling at the initial location.

* At many ports, Customs lacks the resources to exercise proper supervision over the gauging of tankers by representatives of the oil companies. Consequently, Customs' role as the only independent source of crude oil and petroleum product imports information, essential to the formulation of energy policy, is in jeopardy.

* Customs lacks the resources for an effective program of outbound clearance of ships and aircraft, and, as a result, controls over the export of critical technology are virtually non-existent.

* In outlying areas, Customs lacks the resources needed to ensure the physical security of the Inspectors themselves. It is not unusual for Inspectors at many land border ports, or on "graveyard shift," to work alone. The lone Inspector is exposed to encounters with narcotics traffickers, fugitives, terrorists and other criminals. Help in many instances is two or more hours away. For these reasons, we strongly believe that Inspectors, for their own security, should be teamed on isolated assignments.

On May 25, 1979 in Lynden, Washington, a lone Customs Inspector on duty was shot and killed by an escaped felon who was entering the U.S. from Canada. Despite repeated requests from this union and members of Congress from the state of Washington, Customs to this day has not assigned sufficient Inspectors to permit greater security at this port of entry.

Finally, we have previously called attention to the continued shortage of Inspectors at our airports. The need for Inspectors to process passenger means that less attention can be given to cargo processing, with a consequent increase in opportunities for smuggling in this area.

Mr. Chairman, these conditions are symptomatic of a general breakdown in enforcement which our union, as the representative of U.S. Customs Inspectors, has been emphasizing since 1978. The unvarnished truth is that there are wide areas of minimal enforcement or non-enforcement of the Customs laws today, and more are emerging. Surely it is a Congressional responsibility to provide the dedicated men and women of the Customs Service with the resources they need to do the job.

Last year, the Trade Subcommittee directed Customs, in conjunction with the INS and the Department of Agriculture, to test new methods of passenger processing at our airports, with the objective of minimizing delays to travelers, while maintaining enforcement. In compliance with this directive Customs initiated ASIST, the Accelerated Specialized Inspection System Test, at the Los Angeles and Miami airports. It is our understanding that the results of this test are still being evaluated. Nonetheless, we have been notified by Customs that it intends to continue ASIST at those airports indefinitely.

This decision seems to indicate that Customs is sufficiently satisfied with the results to give its blessing to yet another inspection technique. Or this may simplify reflect a decision by Customs management to bow to the inevitable. Whatever the case may be, large questions have been left unanswered. What was the impact of the test on enforcement? Have the Department of Agriculture's concerns over the inspection of baggage been allayed? Has the General Accounting

Office (GAO) participated in the evaluation, as this Subcommittee requested? If so, where is the GAO's assessment of the scientific validity of the test?

We can assure the Subcommittee that, while we have always been in favor of innovation in the Service, we will not endorse a program that is simply a rationalization for lax enforcement. We are quite aware of the pressures to expedite the flow of passengers at our airports. We are also aware of the danger, in this environment, of selecting a system that compromises enforcement for the sake of facilitation, and we will never be a party to it. We intend to give the final test report the utmost scrutiny. The best service that Customs can perform at this point is to make the interim report on this project available to the Subcommittee and the public, while expediting preparation of the final report.

Let me turn now to the subject of cargo processing, which is another area where Customs appears to be moving headlong toward nationwide adoption of a new inspection system without a proper evaluation of the costs and benefits including the impact on enforcement. During FY 1980, Customs tested a prototype version of a new cargo clearance system for use at seaports, known as ACCEPT, or Automated Cargo Clearance and Enforcement Processing Test. The results indicated that the program was a failure. The system was restructured and tested during FY 1981 at the Port of New Orleans. Now we are advised in the Customs budget documents that ACCEPT is being programmed for adoption nationwide.

The Customs Service has issued a report on the New Orleans test which leaves many fundamental questions unanswered. The document cites numerous statistical advantages associated with the use of ACCEPT, but fails to explain fully how these were realized. We do not

believe that these inadequately substantiated findings alone justify adoption of the ACCEPT program nationwide. The Office of Inspection in Customs is now developing a plan to implement the system on a national basis. We believe that this Subcommittee as well as members of the public should be given an adequate opportunity to study and comment on such a major change in the way cargo is processed before it is put into effect. Until then, the program should not be adopted, particularly since the initial results of the test were so negative. The idea behind ACCEPT is simple. Since Customs can only make a limited number of inspections, it should concentrate these on "high risk" shipments where the payoff is potentially greater for the inspectional resources expended. The problem is: How do you determine which are the high risk shipments and who are the high risk importers? What are the criteria? Country of origin, for example, would have to be considered. Any shipment from Columbia ought to be suspect as to drugs whether an importer has a good record or a bad one or whether the port of entry was New Orleans or Detroit.

Moreover, once it becomes known that certain shipments and certain importers are receiving minimal inspection, what is the plan for dealing with the infinite ingenuity of the smuggler who attempts to beat the system? What about shipments that are potentially harmful once they enter the stream of commerce, such as adulterated foodstuffs and improperly labeled medicines? When Inspectors were taking samples, such shipments could be stopped at the port. Now the full burden will fall upon the Import Specialist, but by the time he or she gets the documents it is too late -- the merchandise is on sale in Kalamazoo. How will ACCEPT protect the public health and safety?

We strongly urge the Subcommittee to bar any funds for the implementation of this program until a complete report is presented

to this panel and you are fully satisfied that this program will not have the profound adverse impact on enforcement that we fear. The Subcommittee should not simply accept unsubstantiated assertions that because this system is "automated" and "computerized," it is a truly effective enforcement tool, and not a scheme for minimal enforcement or non-enforcement through exclusion from inspection of many goods imported into this country. We will be pleased to assist this Subcommittee in any way possible with your review of the ACCEPT program.

In this connection, we would like to call to the Subcommittee's attention a regulation issued by Customs and published in the Federal Register of September 10, 1981. This regulation has the effect of waiving Section 499 of the Tariff Act of 1930 which requires the inspection of not less than one package of every invoice and not less than one of every 10 packages of imported merchandise. The law specifically authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue.

The intent of this provision was to allow the reduction, at individual ports, of the number of inspections of specified goods or classes of merchandise. The authority granted to the Secretary clearly cannot be utilized to totally abrogate the standard for inspection (one package out of 10) contained in the law.

Yet this is precisely what Customs has done in a most blatant manner. This new regulation allows the release of merchandise with no inspection at all, contrary to the express provisions of the Tariff Act of 1930. Under this Act, the Secretary of the Treasury is authorized to permit reduced inspection, but cannot simply waive all inspection of imported merchandise. Such an action is contrary to law

and sensible policy.

In reviewing projects like ACCEPT, this new regulation is very enlightening. Apparently, the thinking of some Customs officials is that, indeed, entire commodity lines may be safely excluded from inspection. In our opinion, the only word that can describe such a mentality is non-enforcement.

We urge the Subcommittee to thoroughly review this regulation, and to assess what would happen to our entire system of import controls were the requirement for inspection abolished. The Tariff Act of 1930 has protected the health and safety of the American people for over 50 years. The standards it contains are sound. We request the Subcommittee to ensure that no appropriated funds are used to implement this regulation until Congress has the opportunity to deliberate whether such a change in the 1930 Tariff Act is sound public policy.

Customs is also considering the elimination of its warehouse program. Under this program, Customs employees are assigned to bonded warehouses on a reimbursable basis in order to provide for the orderly release of in-bond merchandise into the stream of commerce. The opportunity for physical inspection of a shipment is greatest at the warehouse site. Indeed, with over 70 percent of the nation's seaborne cargo now arriving in containers which proceed directly under bond to warehouses or foreign trade zones inland, these locations are the most effective from the standpoint of physical inspection and control.

Nevertheless, it is our understanding that Customs is now planning to seek the removal of Customs employees from bonded warehouses and turn the release of merchandise over the warehouse management. We trust the Subcommittee will wish to inquire about this plan, and see that it receives a full public airing.

We would like to call attention to the fact that, in its report on the authorization of appropriations for FY 1981, the Trade Subcommittee called upon Customs to conduct an in-depth national audit of bonded warehouses. The Subcommittee report noted "incredible" abuses in the warehouse program. We do not know whether such an audit has been completed, but certainly its finding would have a bearing upon any review of Customs plans for terminating its presence at the warehouses.

Let us turn now to the subject of Inspectional overtime. It is our belief that there is an increasing awareness in the Congress that the overtime earnings of Customs Inspectors are a reflection of the the enormous demands made upon these men and women to process a steadily growing workload. Given its limited work force, the Customs Service has since 1975 been using overtime funds as a resource to meet the increasing demand for clearance of passengers and cargo. The overtime earnings of Inspectors are just compensation for long and irregular hours, and physically demanding and hazardous duties.

Customs Inspectors must be available at all hours to assist the traveling and importing public. Overtime assignments are a public service required of our Inspectors --a duty they cannot refuse. An Inspector with overtime earnings of $15,000-$20,000 a year works, on the average, 62 hours a week 52 weeks a year for the convenience of the public and to ensure enforcement of our Customs laws.

-- It is unfair when some members of Congress seem to forget that Inspectors are husbands and fathers, wives and mothers, and are entitled to lives of their own.

-- It is unfair when Customs Inspectors are the only group of Federal employees singled out for an arbitrary cap on their earnings.

We believe the time has come for the Congress to demonstate its

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sensitivity to the problems encountered by Inspectors by removing the overtime cap on their earnings.

We believe this should be done for the following reasons:

* The overtime cap is interfering with accomplishment of the Customs mission. Inspectors who exceed the cap are not available for overtime assignments, and some services are not being provided on overtime even though the services are reimbursable, e.g., charter aircratf clearance, general aviation inspections, release of air freight, and ship clearance.

* The cap is preventing the proper allocation of resources among ports experiencing different rates of growth. Instead of workload being processed by local Inspectors on overtime, Inspectors have been transferred from other ports at government expense to do the job.

* The administration of the overtime cap is costing Customs over $500,000 annually.

* Customs has itself called for removal of the cap. Last year, Customs testified:

"In fiscal year 1980, the year the overtime cap was imposed, only two Customs employees exceeded the $20,000 cap. However, this was only accomplished at increased expense to the government, working lower graded employees an excessive number of hours, and by changing employees work locations or assignments. We have implemented many new procedures and instituted controls to eliminate overtime abuse and to comply with the $20,000 overtime cap. We feel that we have been very successful in this endeavor. In fiscal year 1981, we are finding it exceedingly difficult, with the increasing workload and the decreasing number of inspectional staff, to operate within the $20,000 limitation. Our ability to continue to provide the services required of us is being jeopardized by the constraint placed upon us to operate within this limitation. It may be shortsighted to continue the overtime cap since additional costs would be incurred to shift staff in order to operate within the overtime constraint.

We recommend that the overtime cap be removed entirely. We believe that by continuing to exercise constraint and maintaining the overtime controls that we've established that overtime will be controlled. Eliminating the overtime cap will open alternative solutions to problems as they arise regarding increased workload and decreasing staff."

* The cap is severely affecting employee morale. It has required the equalization of overtime earnings among employees, requiring lower-graded workers to work more overtime, and prohibiting employees who would be willing to work longer hours from doing so. It is important to morale, and a more efficient and productive workplace, that individual employee motivations be taken into account in making overtime assignments. Employees willing and

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able to work more overtime should be permitted to do so, as this minimizes the burden of forced overtime assignments on their fellow workers, and allows trade-offs on special occasions such as weddings and other family events. Some persons prefer more work, others prefer more leisure. Morale at the workplace is fostered by allowing individual preferences to play a greater role in overtime assignments, not by enforced equalization of earnings.

We would like to call to the attention of the Subcommittee the fact that last year, at our request, the Customs Service conducted a statistical study of Inspectional overtime. This study assembled data from 40 ports for one week in each quarter of Fiscal Year 1980. The ports selected were the largest seaports, airports, and land border ports representing 80 percent of the total inspectional workload and 75 percent of inspectional staffing. These ports accounted for 72 percent of total reimbursable overtime earned. The specific overtime information was obtained from nearly 66,000 records of assignments for the 4-week sample.

The findings of this study are so significant with respect to the rate of Customs inspectional overtime pay that we would like to quote them:

"The national average earnings per assignment and hourly rate based on a GS-9 Step 5 (the average inspector grade level) are:

(1) Sunday = $158.24 (2.1 times the average hourly rate)
(2) Saturday = $87.23 (2.4 times the average hourly rate)
(3) Weekday (Monday - Friday) = $78.63 (2.4 times the average hourly rate)
(4) Holiday = No figures (Insufficient data).

The average earnings are indicative of the double-time rate of compensation as provided in the Act of 1911. The rate on a Saturday or weekday of 2.4 times the hourly rate of a GS-9/5 inspectors is higher due to the "roll back" provisions of the Act which provide special compensation to an employee who has left the work site and is called back in to work."

One other significant finding of the study relates to the amount of time worked by Customs Inspectors on Sundays. This, as you know, has been the subject of much demagougery by ill-informed individuals who have alleged that Customs Inspectors are reporting for work for an

hour or less and receiving two days pay. The facts, confirmed by the study, are that the average Inspector works 7 hours on Sunday assignments, and an average of 8 hours if holidays are included in this figure.

The findings of this study have an especially important bearing on a bill, introduced at the request of the Administration, that would amend the Act of 1911 to reduce the rate of overtime pay for inspectional duties to time and one-half. According to the Office of Management and Budget (OMB), this would save $4 million in public funds. Much of the support for the bill is based on the misconception that Customs Inspectors are making triple and quadruple time, and even more, in performing overtime assignments.

Well, we can tell the Subcommittee that the facts are now avilable. They show that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays, and 2.4 times the regular rate on the other days of the week. The Customs study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the work site. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. In addition, there is often a good deal of uncompensated waiting time that Inspectors must put in, when aircraft or ships are delayed in arriving.

We are absolutely convinced that the frequent call-backs, irregular hours, and hazardous and demanding nature of an Inspector's duties fully justify the present rates of overtime pay. Moreover, these rates are not out of line with the prevailing private sector practice, which established double time premiums for call-back and night work, and where the prevailing practice is triple time for Sunday overtime and double time and one-half for holiday work. This information is based upon a survey of private sector premium pay conducted for the Office

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of Personnel Management's Premium Pay Task Force.

We urge the Subcommittee to reject the call for a change in the rates of overtime compensation paid to Inspectors. It would not only be grossly unfair to the Inspectors, but would seriously reduce the incentive to continue to work long hours at a time when the Service is stretched thin and lacks adequate staff.

Tariff and Trade

The Tariff and Trade functions of Customs encompass the collection of duties and the administration of quotas and other trade programs. The backbone of this function consists of approximately 1,100 Import Specialist whose expertise permits accurate classification of imports under the Tariff Schedules, and proper appraisement or valuation for duty assessment purposes. By virtue of many years of service, intimate familiarity with the importing community, product lines, and Customs Court rulings, as well as the technical aspects of their commodity specialty, Import Specialists have a well-deserved reputation for their expertise. Some are world-renowned in their fields, such as ceramics and antiques.

Import Specialists are in day-to-day contact with the importing community, who find their knowledge invaluable in ascertaining beforehand how a particular importation will be treated, and in forestalling costly errors and disputes. During Fiscal Year 1981, Import Specialists made over 8,000 visits to importers' premises. When one considers that there are 10,000 categories in the Tariff Schedules, that products frequently fit more than one classification, and that proper classification can make the difference between duty-free entry or a 70 percent tariff, the value of this service to the importing community can be understood.

While importers consider this to be a very valuable service to their business, it more importantly allows a tremendous savings to Customs by eliminating the necessity for many rejected entries, time-consuming post-entry work, and entry backlogs resulting from errors. A few hours at the importer's premises, viewing samples and establishing classifications, can save untold staff hours by permitting Customs to liquidate most entries upon receipt.

There is a large and growing imbalance between workload and resources in the Tariff and Trade activities of Customs. As shown in Table 2, the 1,150 Import Specialists on board today are fewer than the number available during 1974. Yet there will be over 5 million entries to be processed in FY 1983, a 60 percent increase over 1974. This means that workload, measured in terms of the number of entries per Import Specialist, has been increasing at an annual rate of over 9 percent a year since 1974. Even allowing for a significant growth in productivity, which has increased historically at a 4.3 percent annual rate, it is clear that Customs has been unable to keep pace with the growing workload during the past decade.

A GAO report, "Assurance Needed That Import Classifications Are Accurate," issued on April 23, 1981 has documented the deterioration resulting from inadequate staff. The report states that:

> "Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.
>
> Verification is hindered, in part, by a cursory entry-by entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be resubmitted, and the lack of a quality assurance program.
>
> The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload."

The report also notes that steps essential to confirming import classifications --physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings-- are often not performed. GAO found that, in a random sample of entries in three Customs field offices, up to 74 percent of product classifications were accepted solely on the basis of reviews of entry documents. Of products susceptible to laboratory analysis, only 13 of 242, or 5 percent were analyzed. From 75 to 85 percent of the products were probably never physically examined, according to the report.

In FY 1983, Customs estimates it will collect over $11 billion in import duties, or $18 for every dollar spent by the Service. Clearly, hiring additional Import Specialists would not only help correct present deficiencies, but would bring in additional revenue to the Federal government. Yet the Administration's response to this problem is to propose a further reduction in the number of Import Specialists, from 1150 in FY 1982 to 1050 in FY 1983.

Import Specialists are a highly specialized group of whom the Federal government should be proud. They make our trade programs run. They assist the importing community. They make final determinations as to the admissibility of merchandise, and their expertise is thus absolutely essential to protect the national health and safety by barring entry of harmful foodstuffs, medicines, and chemicals.

The nation needs a firm commitment to increase the number of these specialized employees to the level required to meet the growing demands of trade and a rapidly expanding importing community. Based on sheer volume of entries, a minimum of 1,400 Import Specialists are required. This number must be further augmented to provide the resources needed for special trade programs, such as the General System

of Preferences, anti-dumping and countervailing duties, trigger price mechanism, orderly marketing agreements, and export controls on critical technology.

Our recommendations for an alternative budget that meets Customs' most critical needs are presented in Tables 3 and 4, appended to this statement, and will be discussed later in our testimony. We strongly urge the Committee to provide the additional Import Specialists and other resources required for the sound administration of our international trade.

We would like to turn now to certain actions taken by Customs management during the past year that are bound to exacerbate an already difficult situation in the Tariff and Trade area.

Recently, Customs notified us of its decision to reduce from 69 to approximately 35 the number of entry processing locations in the country, where Import Specialists are assigned. This plan, known as centralization of appraisement, has presently been delegated to the Regional Commissioners for implementation. Many members of Congress are fully aware of this proposal because of the outcry it has produced from the importing community and municipal officials nationwide.

Amazingly, Customs has provided no rationale for this plan, no cost-benefit analysis of the supposed advantages, not even the economic impact statements on the affected communities, required by executive order. We expect that the Subcommittee will be seeking the answer to these and other questions.

In view of the increased growth of the nation's foreign trade, the expanding number of foreign trade zones, the growing number of cities seeking port of entry status, and the obvious advantages of continuous Import Specialist contact with the importing community, one would have thought that Customs management would have favored expanding the

number of entry processing locations. As the Ad Hoc Committee on International Trade of the City of Kansas City has told the Congress:

> "Instead of removing import specialist expertise from areas where numerous importers are located, Customs should be developing it and taking advantage of this expertise. Programs such as importer inquiries and the import specialist commodity seminars should be strengthened and expanded. This is the way to meet the needs of the future."

Kansas City is a good example of the impact of the centralization plan. It has a rapidly growing port and foreign trade zone. There are 770 importing firms that use these facilities. Yet, under the Customs plan, no Import Specialists would be assigned to Kansas City and entries would have to be processed by mail at another port.

We have informed the Customs Service and many members of Congress of our vigorous opposition to the centralization of apparaisement concept based largely upon the following reasons:

* It would deprive the business community of an extremely valuable service, and cost many firms thousands of dollars.

* It would hinder the development of foreign trade in many municipalities, and lead to lost revenue and business.

* It would break down the intimate contact with the importing community that is the source of the Import Specialist's expertise.

* It would lead to more errors in entry documents, more rejected entries, more contested classifications and valuations, and larger entry backlogs.

* It would break down the Inspector/Import Specialist team that is vital to the smooth operation of our ports of entry. The range of commodities that an Inspector must examine is too great to acquire the expertise needed for a determination of admissibility. Consequently, the Inspector calls upon the Import Specialist, who frequently joins him in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is greater likelihood of a shipment being released before its inadmissibility is discovered.

* It would ultimately cost the government billions in lost revenues from entry errors.

We strongly urge the Subcommittee to bar the use of appropriated funds for implementation of this plan. We would go further: we recommend that the Subcommittee report out an authorization bill with a clear statement of policy concerning the desirability of Customs' stationing Import Specialists in localities having sugnificant numbers of importers, including mandatory assignment of a specific number of Import Specialists in proportion to the number of importers.

Finally, we would like to call to the Subcommittee's attention another ill-advised action implemented by Customs management last year. This is a Manual Supplement entitled "Selective Entry Processing Systems-Manual Operation." This Manual Supplement directs that 35 percent of all entries be processed by clerical personnel rather than Import Specialists. Of course, what is not stated is that clerical employees are frequently not available, nor are they able to properly review entry documents in many cases. So the effect of the Manual Supplement is simply to exclude the selected entries from review, which means accepting the importer's declaration as to value and admissibility.

Customs refers to this system as "manual by-pass" of those entries which are to receive a lesser degree of scrutiny. The avowed principle is that Import Specialists should spend more time on the more complex entries, those involving quota merchandise and important U.S. trade programs. We have no quarrel with this principle. It simply states that, given the huge workload, Import Specialists must decide which entries demand attention.

The problem is that Customs management has arbitrarily and without any apparent justification, chosen the figure of 35 percent, as the proportion of entries to be by-passed. No one knows what proportion of "routine" entries can be "safely" by-passed. It probably varies from day-to-day and port-to-port. Whatever it may be, the selection of such

entries is best left to the judgement of the Import Specialist. For Customs management to specify 35 percent or any other figure for by-pass is to send the wrong signal to the business community. If interpreted as the number of entries to be let through with only a cursory check by clerical employees or no check at all, it would certainly lead to lost revenue and perhaps admission of unsafe products.

Customs is attempting to use this Manual Supplement to cut the size of workload. A sound principle, selecting and setting priorities for the work, is being twisted into another rationale for non-enforcement.

In its study of Customs classification mentioned earlier, GAO states that high broker error rates in entry documents was a prominent reason why Import Specialists were not selecting more entries for by-passing. This is confirmed in a Customs survey of rejected entries conducted in May 1980. The survey found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification errors were the most numerous, amounting to 32 percent, while valuation errors made up another 15 percent. In addition, 549 entries covering quota merchandise were erroneously presented as not subject to quota. In commenting on this finding, the Director of Customs' Office of Trade Operations stated:

> "While this number does not appear to be statistically significant, the unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

It should also be noted that the correction of these errors by the Import Specialists resulted in the collection of an additional $53 million in import duties. The significance of this figure is apparent when one considers that the annual salary cost for the entire Import Specialist workforce at that time was $34 million.

We believe that the high error rate in entry documents submitted by brokers and importers makes the mandated by-pass of 35 percent of

all entries a foolhardy proposition. Moreover, as we have noted, such a policy will result in lost revenue and illegal or unsafe admissions. It would be far wiser for Customs management to seek the additional resources needed to cope with the mounting workload. As the GAO study indicated, effective selective entry processing systems simply do not exist at the present time. Until they are developed and tested, existing systems should be kept in place and supported.

For the reasons stated above, we recommend that the Subcommittee ensure that no appropriated funds are used for the implementation of this Manual Supplement.

Tactical Interdiction

We would like to touch briefly on the Tactical Interdiction function of the U.S. Customs Service. This important area includes the dedicated men and women of the Customs Patrol who serve on air, land, and sea and whose mission is to interdict the flow of narcotics and contraband at and between our ports of entry.

The Customs Patrol is a small force --1,300 Customs Patrol Officers in all. Nevertheless, during FY 1981, Customs Patrol Officers accounted for 86 percent of the value of all seizures made by Customs. The Customs Air Patrol is doing an enormous job interdicting what this Subcommittee last year called a veritable "Berlin Airlift" of drugs from Latin America to the Southeastern United States. The Customs Land Patrol has been effective against illegal immigration. The Customs Marine Patrol cooperates with the Coast Guard and Navy and other Federal agencies in blocking the use of "mother ships" and other vessels used to bring drugs into the country.

The magnitude of the problem confronting the Air Patrol in the

Southeast is graphically illustrated by the Director of the Customs Air Support Program, Robert Asack, who is quoted as telling the Miami News:

> "What we've got is about 150 targets every day coming in, in the radar environment, and they're not talking on radio, they're not displaying a transponder code and they're not on flight plan. And they're not being challenged by anybody.... The only people around to challenge them are us and we can only pick six to eight a day to chase."

The fact is that, of 7,000 aerial sorties made by drug traffickers into this country each year, only 1 percent are being successfully interdicted.

In light of this deplorable situation, it is incredible that the Administration proposed a cut of 70 positions and $4 million in Tactical Interdiction for FY 1983. Moreover, there are large and unspecified reductions in procurement in this budget, and only a modest increase in maintenance funds, so it is quite possible that Customs Patrol Officers will be short-changed in other ways.

We ask the Subcommittee to give very serious consideration this year to the priority that should be accorded Customs Tactical Interdiction, in light of the enormous drug and immigration problems facing this country.

The Customs Air Patrol's interdiction effort in Florida presently has an operating capability of 5 days a week, eight hours a day. These operations are staggered for maximum effectiveness throughout the week. Nevertheless, the limited operational capability of the Air Patrol still leaves the odds in favor of the drug runner. By providing 30 additional positions for the Air Patrol, present operational capability could be expanded to seven days a week, 12 hours a day. The scope of the air threat in the Southwestern part of the country warrants such a capability, and we strongly urge the Subcommittee

not only to restore the Administration's cut of 70 positions in Tactical Interdiction, but to add an additional 30 staff for the Customs Air Patrol.

We recommend that the Subcommittee confront this situation with a sense of urgency and act favorably upon the following recommendations:

* restoration of the cut imposed by the Administration;
* a substantial increase in the Air, Land, and Marine Patrols;
* procurement of a second air module, such as the one presently deployed in the Southeast (an air module is a resource package consisting of aircraft, radar, and electronic gear);
* additional funds for long deferred maintenance;
* adequate operational funds to sustain a high level of activity.

Alcohol and Tobacco

As the Subcommittee is aware, the Administration has stated its intention to merge into Customs, effective April 1, 1982, the alcohol and tobacco regulatory and revenue collection functions of the Bureau of Alcohol, Tobacco and Firearms (BATF).

If the Administration goes ahead with its plan, we are concerned that the mission being assigned to Customs will not be adequately reflected in the resources being provided by the Administration. These resources have been cut back substantially from the level at which they were sustained in BATF during Fiscal Year 1981. In effect, Customs is being given new responsibilities without the resources needed to carry them out.

Customs has stated in its budget that it will only be able to undertake minimal enforcement of the Federal Alcohol Administration Act. We urge the Subcommittee to consider allocating $11 million in additional resources for proper enforcement of the Act.

The alcohol and tobacco excises to be administered by Customs are

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estimated to bring in more than $8 billion in Federal revenue. This important revenue source must be protected. We urge the Subcommittee to ensure that sufficient resources are provided for this purpose.

Finally, we must ensure that the merger does not have an adverse impact on Customs' ability to carry out its remaining missions. In this connection, it will be necessary for Congress to provide $22 million in supplemental appropriations for Fiscal Year 1982, requested by the Administration, in order for the merger not to undermine Customs functions. While we do not know what the fate of the supplemental appropriations bill will be this session, we urge the Subcommittee to monitor the progress of this legislation and express its interest in adequate funding for the former BATF functions.

Conclustion: NTEU's Recommendations for An Alternative Budget for the Customs Service

Tables 3 and 4, appended to our testimony, contain our recommendations for an alternative budget that will enable the Customs Service to meet minimum essential requirements in Fiscal Year 1983. High among these requirements are the need for additional Inspector staffing at our ports of entry, and the need for an adequate number of Import Specialists to process a growing volume of imports.

We would like to summarize these recommendations.

First, we recommend an additional 300 Inspectors and $11,553,000 above the level of the FY 1982 continuing resolution. This recommendation entails restoration of the 972 position reduction, and $37,432,000 imposed by the Administration. Consequently, the total additional appropriations in the area of Inspection and Control would be $48,985,000 for Fiscal year 1983.

Second, we recommend an additional 200 Import Specialists and $8,122,000 above the level of the continuing resolution. This entails

restoration of 268 positions and $10,883,000 cut by the Administration. Consequently, the total additional funding for FY 1983 would be $19,005,000.

Third, we recommend restoration of the 70 positions cut by the Administration from Customs Tactical Interdiction functions and an additional 30 more staff years to meet the enormous problems that exist in this area. This will prevent a RIF of 100 Customs Patrol Officers. The add-on for this restoration is $3,836,000.

In sum, we urge a restoration of Administration cuts totaling 1,310 positions (in the above functions) and $51,011,000. Going further, we would add 530 positions and $20,815,000 for essential personnel. Thus, our total recommended addition to the Administration's budget request for Fiscal Year 1983 is 1,840 positions and $71,826,000.

Mr. Chairman, we appreciate this opportunity to present our views on the FY 1983 authorization of appropriations for the U.S. Customs Service. We will be pleased to answer any questions or provide any additional information the Subcommittee may request.

Table 1. Number of Customs Inspectors and Total Employment

FY 1972 - 1983

	Total Employment (Average Positions)	Number of Customs Inspectors	Indexes: 1972=100 Total Employment	Customs Inspectors
1972	11,116	3,754	100	100
1973	11,772	3,700	106	99
1974	11,878	4,000	107	106
1975	13,076	4,400	118	117
1976	13,380	4,300	120	114
1977	13,228	4,300	119	114
1978	13,854	4,399	125	117
1979	14,061	4,174	126	111
1980	13,820	4,165	124	111
1981	13,316	4,379		
1982 (Est)	13,200	4,374		
1983 (Est)	11,862	3,996*		

* Includes 300 Inspectors supported by reimbursable program.

Table 2.

U.S. CUSTOMS SERVICE
Formal Entries of Merchandise and Number of Import Specialists
Fiscal Years 1972-1983

Fiscal Year	Number of Import Specialists	Number of Formal Entries of Merchandise	Entries Per Import Specialist	Average Annual Workload* Growth [2]	Required Number of Import Specialists Assuming Productivity Growth of 4.3% Per Year [3]
1972	1174	2,866,000	2,441		1174
1973		3,240,000			
1974	1210	3,206,000	2,650	1956-1974	1210
				4.3%	
1975		3,015,000		1974-1983	
1976		3,264,000		9.4%	
1977		3,690,000			
1978		4,017,000			
1979	1236	4,384,000	3,547		1361
1980	1219	4,374,000	3,588		1320
1981	1165	4,588,000	3,938		1331
1982 (EST)	1150	4,730,000	4,113		1328
1983 (EST)	1050	5,130,000	4,886		1396

*Workload is measured in number of entries per Import Specialist.

Notes:

1. Department of the Treasury, Justification for Appropriations (Congressional Submission), Fiscal Year 1982.

2. Subcommittee on Trade, Committee on Ways & Means, Background Materials on H.R. 9220, July 14, 1976, p. 39, gives Import Specialist workload in FY 1974 and average annual growth of workload, 1956-1974,

3. Assuming 4.3% productivity growth per annum since 1974, the number of entries each Import Specialist would be capable of handling in 1983 would be 2650 + (2650 x .043x9) = 3676. Dividing this into 5,130,000 entries yields 1396 as the required number of Import Specialists.

Table 3.

U.S. CUSTOMS SERVICE BUDGET

FY 1983

ADMINISTRATION REDUCTION FROM 1982 AND NTEU ALTERNATIVE

STAFF YEARS

	ADMINISTRATION REDUCTION	NTEU ALTERNATIVE	TOTAL NTEU ADD - ON
INSPECTION & CONTROL	-972	+300	+1272
TARIFF & TRADE	-268	+200	+468
TACTICAL INTERDICTION	- 70	+ 30	+100
TOTAL	-1310	+530	+1840

APPROPRIATIONS
(THOUSANDS OF DOLLARS)

	ADMINISTRATION REDUCTION	NTEU ALTERNATIVE	TOTAL NTEU ADD - ON
INSPECTION & CONTROL	-37,432	+11,553	+48,985
TARIFF & TRADE	-10,883	+ 8,122	+19,005
TACTICAL INTERDICTION	- 2,696	+ 1,140	+ 3,836
TOTAL	-51,011	+20,815	+71,826

Table 4

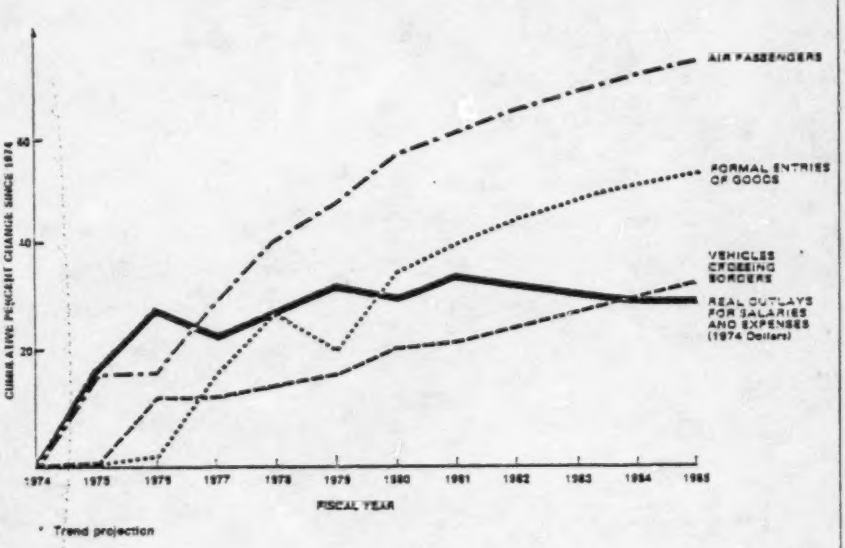
U.S. CUSTOMS SERVICE RESOURCES AND WORKLOAD, FY '83
ADMINISTRATION'S BUDGET REQUEST AND NTEU ALTERNATIVE

1. U.S. CUSTOMS SERVICE		FY '81	FY '82	FY '83	DIFF FY '82-83
STAFF-YEARS	A. Admin. Request(TL)	13,316	13,560	12,581	- 979
	ATF	-0-	360	719	+ 359
	Customs (-ATF)	13,316	13,200	11,862	- 1338
	B. NTEU Alt. (TOTAL)	13,316	13,760	14,421	+ 689
	ATF	-0-	360	719	+ 359
	Customs (-ATF)	13,316	13,400	13,702	+ 330
APPROPRIATIONS (in thousands of dollars)					
	A. Admin. Request	498,468	508,984*	530,524	+21,540
	ATF	-0-	15,241	31,464	+16,223
	Customs (-ATF)	498,468	493,743	499,060	+ 5,317
	B. NTEU Alt.	498,468	519,384	602,350	+82,966
	ATF	-0-	15,241	31,464	+16,223
	Customs (-ATF)	498,468	504,143	570,886	+66,743
2. INSPECTORS					
A. STAFF-YEARS					
(1) Admin. Request		4,379	4,374	3,696	- 678
(2) NTEU Alt.		4,379	4,524	4,824	+ 300
B. AIR PASSENGER ARRIVALS (IN THOUSANDS)		24,187	27,089	30,340	+ 3,251
C. TOTAL PERSONS ARRIVING FROM FOREIGN COUNTRIES (IN THOUSANDS)		314,282	318,900	332,400	+13,500
3. IMPORT SPECIALISTS		FY '81	FY '82	FY '83	DIFF (82-83)
A. STAFF-YEARS					
(1) Admin. Request		1165	1150	1050	- 100
(2) NTEU Alt.		1165	1215	1415	+ 200
B. FORMAL ENTRIES OF MERCHANDISE (IN THOUSANDS)		4588	4730	5130	+ 400
4. CUSTOMS PATROL OFFICERS STAFF-YEARS					
A. Admin. Request		1332	1315	1261	- 54
B. NTEU Alternative		1332	1315	1345	+ 30

* DOES NOT INCLUDE PAY SUPPLEMENTAL

EXHIBIT I

CUSTOMS WORKLOAD COMPARED TO REAL SALARY AND EXPENSE OUTLAYS (1974-1985)



* Trend projection

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NATIONAL TREASURY EMPLOYEES UNION

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ADDENDUM TO STATEMENT

We recently learned that the Office of Personnel Management (OPM), in conjunction with the U.S. Customs Service, is preparing to downgrade the 59 non-supervisory attorneys in the Office of Regulations and Rulings (ORR), U.S. Customs Service. This action appears to be based on the erroneous assumption that these attorneys are not qualified to retain their present grade level. In fact, the action contradicts a statement made by Commissioner von Raab praising Customs Headquarters attorneys.

In testimony before the House Subcommittee on Trade, the Customs Commissioner said that Customs' decision to delegate to National Import Specialists (non-attorneys) authority to issue binding rulings in selective areas of tariff classification "has permitted the use of highly trained competent attorneys at Headquarters for major matters involving substantial sums of money and/or issues impacting upon our international trade policy and position."

The proposal to downgrade the ORR attorneys is based on an audit of two employees, after which OPM concluded that the matters within the jurisdiction of ORR do not involve complex factual or legal issues and do not have a significant impact on major industries. The statements by Commissioner von Raab, and the experience of the importing community clearly bely this conclusion.

As the exclusive representative of all Customs Service employees worldwide, we urge Congress to prevent the pending downgradings of Customs attorneys in the Office of Regulations and Rulings.

Mr. CONNERY. As the subcommittee is undoubtedly aware, Customs is responsible for enforcing a myriad of laws and regulations that affect every segment of our society. So much of our Nation's economy and health are dependent upon the vigorous enforcement of the Customs laws that any reduction in these efforts would have a widespread impact on countless American citizens and businesses throughout our Nation.

We are particularly aware of the intense pressure on Congress to reduce Federal expenditures. Nevertheless, we believe it essential that the subcommittee keep three salient facts in mind:

First, Customs is a key revenue-producing agency of the Federal Government. Every dollar spent for enforcement of our Customs laws returns $18 to the U.S. Treasury.

Second, Customs has an essentially uncontrollable workload. No matter what actions are taken with respect to the budget, international trade and travel continue to grow at an annual rate of between 7 and 12 percent.

Third, we must recognize that, while it may be tempting to make immediate budgetary savings at the expense of the Customs Service, many of these short-term savings quickly bound back as long-term costs to American industry, to State and local budgets, or to other parts of the Federal budget.

For these reasons, we are particularly dismayed by the fiscal year 1983 budget request for Customs set forth by the Reagan administration. In brief, the administration's proposed budget of $530,524,000 requires a reduction in force of 1,804 full-time employees and the loss through attrition of an additional 800 positions. Close to 20 percent of Customs' present work force would be eliminated under this plan, including 1,200 inspectors, 260 import specialists, and 100 patrol officers.

There can be no doubt that these cuts will mean fewer drug seizures, at a time when the Nation is barely interdicting 10 percent of the foreign drug traffic; that enforcement of our tariff and trade laws protecting American industries and workers will be weakened; and that passenger conjestion at our air, land, and sea ports will get worse in the coming year, not better.

We strongly urge the subcommittee to add at least $44 million to the administration's request. This amount, which is included in H.R. 6094, the Customs authorization bill under consideration by the House Trade Subcommittee, represents the appropriation necessary to maintain current operation and staff levels through fiscal year 1983.

Mr. Chairman, in addition to the severe constraints placed upon the Customs Service by the administration's budget policy, we believe that two other issues merit the attention of this subcommittee.

First, the subject of inspectional overtime has generated a great deal of controversy and misinformation over the past year. We urge the subcommittee to keep in mind the fact that the overtime earnings of Customs inspectors are a reflection of the enormous demands made upon these men and women to process steadily increasing cargo and passenger traffic. We believe that Customs must be free to use overtime to meet this challenge.

The present $20,000 cap on overtime earnings should be removed for the following reasons. One, the overtime cap is interfering with the accomplishment of Customs mission. Inspectors who exceed the cap are not available for assignments, and some services are not being provided even though the services are reimbursable by the carriers. Two, the cap is preventing the proper allocation of resources among ports experiencing different rates of growth. Instead of the workload being processed by local inspectors on overtime, inspectors have been transferred from other ports at Government expense.

Three, the administration of the cap is costing Customs close to $1 million annually. Four, Customs has itself called for the removal of the cap. Five, the cap is severely affecting employee morale, requiring lower graded workers to work more overtime and prohibiting employees who are willing to work longer hours from doing so.

The other issue which is of great concern to our union and to the importing community as well is Customs plan to reduce the number of locations where importers can have entry documents reviewed by import specialists from 69 nationwide to 35, or one per district. In view of the tremendous growth of foreign trade and the obvious advantage of continuous contact between Customs import specialists and the importing community, we urge the subcommittee to bar the use of funds for the implementation of the so-called centralization of appraisement plan.

We have been joined by importers in opposing this plan for the following reasons:

One, it would deprive the business community of an extremely valuable service and cost many firms thousands of dollars.

Two, it would hinder the development of foreign trade in many municipalities and lead to lost revenue and business.

Three, it would break the intimate contact with the importing community that is the source of the import specialist's expertise.

Four, it would lead to more errors in entry documents, more rejected entries, more contested classifications and valuations, and larger entry backlogs.

Five, it would break down the inspector/import specialist team that is vital to the smooth operation of our ports of entry.

Six, it would ultimately cost the government billions in lost revenue from entry errors.

Amazingly, Customs has provided no rationale for this plan, and we hope that the subcommittee will report out an authorization bill with a clear statement of policy concerning the desirability of stationing import specialists in localities which have significant numbers of importers.

Mr. Chairman, we sincerely appreciate the opportunity to appear before the subcommittee today. If there are any questions, my colleague and I will attempt to respond.

Senator DANFORTH. Thank you very much. Thank you very much, Mr. Connery. I appreciate your testimony. We will examine it.

The last witness is James Gorson, director of facilitation, Air Transport Association of America.

STATEMENT OF JAMES R. GORSON, DIRECTOR OF FACILITATION, AIR TRANSPORT ASSOCIATION OF AMERICA, ACCOMPANIED BY LINDA PINEGAR

Mr. GORSON. Thank you, Mr. Chairman. My name is James R. Gorson. I am director of facilitation of the Air Transport Association of America, which represents most of the scheduled airlines of the United States.

With me is Mrs. Linda Pinegar, ATA's director of federal legislation.

In order to comply with your 5-minute rule, Mr. Chairman, I will simply excerpt from my statement.

Senator DANFORTH. Without objection, your full statement will be inserted.

[The prepared statement of James R. Gorson follows:]

STATEMENT OF JAMES R. GORSON

AIR TRANSPORT ASSOCIATION OF AMERICA

BEFORE THE SUBCOMMITTEE ON TRADE

OF THE FINANCE COMMITTEE

U.S. SENATE

ON THE FISCAL YEAR 1983 AUTHORIZATION

FOR

THE U.S. CUSTOMS SERVICE

14 APRIL 1982

Statement of James R. Gorson
Director - Facilitation
Air Transport Association of America
Before the Subcommittee on Trade
of the Finance Committee
U.S. Senate
On the Fiscal Year 1983 Authorization for
The U.S. Customs Service
14 April 1982

My name is James R. Gorson. I am Director - Facilitation of the Air Transport Association of America, which represents most of the scheduled airlines of the United States. We appreciate the opportunity to appear before the Subcommittee to discuss certain aspects of the FY 1983 budget proposals for the U.S. Customs Service, since nineteen of our member airlines provide regularly scheduled air service to the United States from more than 70 countries.

Air transportation is the predominant means of conveyance to and from the United States for international travelers. Air transportation also represents a very extensive, increasingly important and growing international air freight and mail distribution system. Since Customs inspection requirements directly affect this vital international commerce, and are mandatory at U.S. airports of entry, the airlines are deeply interested in the impact of budget considerations relating to Customs staffing and procedures.

There has been some progress during the last year in the modernization and simplification of federal

inspection procedures. We commend the Chairman and the members of this Committee for the initiative and leadership with respect to the testing of the GAO one-stop passenger facilitation concept (ASIST - Accelerated Specialized Inspection System Test) at the Miami and Los Angeles international airports. We are pleased that the Comptroller General in his report of 22 March 1982 (B-206770) concluded that "the one-stop inspection system is an improvement over the procedures used in the past". We believe this is an important first step toward the development of a more selective, expeditious passenger inspection system which can and should be expanded nationwide. Unfortunately, however, comparable progress has not been achieved in the inspection of international air freight, and much remains to be done to improve and speed up the entry of international travelers into the United States.

Budget actions over the past several years have had the effect of reducing the number of available Customs inspectors at our international airports. They have adversely affected the time required for, and private sector costs associated with, the federally imposed inspection of passengers and cargo at preclearance points abroad and at U.S. airports of entry, notwithstanding the importance of efficient and productive U.S. international air commerce to the national economy.

The collection of Customs duties last year on imported merchandise at J. F. Kennedy International Airport alone was the third largest of any U.S. port of entry, amounting to $855 million. In 1981, visitors from abroad contributed over $12 billion to the economy of the United States, and produced approximately $1.4 billion in federal, state, and local taxes. A comparable level of expenditures and tax receipts, we believe, will be obtained in 1982. Foreign travel dollars represent our third largest source of export earnings. Yet we fail to recognize the importance of this contribution to our national economy, and continue to discourage and inconvenience international visitors and shippers with long lines and extensive delays during the Customs process. These delays, for the most part, are the result of inadequate Customs staffing and the unnecessarily complex inspection procedures.

The FY 1983 Customs budget proposals include further expenditure reductions in the personnel area which, we understand, may reduce airport inspector levels by more than 150 positions. This would be comparable, for example, to eliminating the entire Customs passenger inspector permanent staffing complements at the Chicago, Houston, Los Angeles and Miami airports. Inspector staffing levels today often are inadequate to meet current airport inspection demands. This situation will

worsen significantly in the coming peak international travel period, and action to resolve it is needed urgently now. Either adequate numbers of inspectors must be authorized, or a high priority program to reduce inspector workload -- through modernization, simplification, and consolidation of the functions of the several inspection agencies -- must be initiated. In this regard, we strongly urge:

1. Extension of the GAO one-stop Accelerated Specialized Inspection System (ASIST) to airports of entry on a nationwide basis.
2. Extension of preclearance -- the inspection of air passengers prior to departure in the foreign country rather than on arrival in the U.S. -- to more locations abroad.
3. Undertaking on a priority basis an exploration of, and reaching decisions on, ways to consolidate the functions of the several inspection agencies (Customs, Immigration, Agriculture).
4. Introduction of further Customs sampling techniques for processing international air passengers and cargo.
5. Simplification of the processing of international air freight wherever possible through a Customs automated inventory control system linked to airline computers.

With respect to the last item, we are concerned about the proposed termination by the U.S. Customs Service of its Automated Manifest Clearance System (AMCS). This project began at Los Angeles some three years ago after having been jointly developed by Flying Tigers and Customs over a long period of time. Air cargo carriers have committed considerable financial and manpower resources in the belief that Customs was going forward with the Automated Manifest Clearance System as the cornerstone to a long-term program to automate international air cargo clearance procedures. Attached to our statement is a copy of Flying Tigers' 26 February 1982 letter to Customs protesting the proposed termination of AMCS.

Although the several measures we are urging will not eliminate the need for Customs inspector staff resource adjustments as international traffic continues to grow, they would moderate such resource demands in the future. These measures would increase inspector productivity without compromising Customs enforcement capability or the inspection process.

We find it difficult to reconcile the proposed inspector staff reductions with the following statement appearing in the President's budget message:

> "In enforcing the provisions of the Tariff Act of 1930, as amended, the inspection and control activity must: (1) accommodate the

> growth of persons and cargo entering this country; (2) open new ports of entry and expand service at existing ports to meet the needs of the traveling and importing public; (3) improve selectivity of Customs inspectional enforcement programs through improved techniques and equipment; and (4) achieve maximum utilization of Customs resources with minimum disruption of international travel and trade."

Perhaps it depends on one's interpretation of the meaning of a "minimum disruption of international travel and trade".

Not only does the question of adequacy of Customs staffing at international airports arise again this year, but new concepts for funding federally required inspections outside the federal budget -- that is, funding by airlines and airline assengers -- are surfacing. They include the imposition of an additional international passenger fee to be used to augment inspection staffing, and the re-introduction of Customs Sunday and holiday overtime charges at excessively high rates to be assessed against the airlines and, ultimately, international air travelers and shippers. The combined cost to airlines and airline customers of these two proposals alone would be approximately $47 million in the first year. In addition, we understand that legislation is under consideration by the Department of Treasury to permit the Customs Service to introduce a "user" fee package for recovering millions

of dollars of direct and indirect Customs inspection and administrative costs. The cost of these "pay-as-you-go" Customs services to be recovered from "users" is estimated, we understand, to be about $440 million on an annual basis. As outlined in the attached *Airline Executive* editorial, these costs would be charged to the airlines among other "users".

The effect of charges of this magnitude would be significant both to the airlines, now suffering unprecedented financial losses due to the current economic situation, and to airline customers, already burdened by inflation, who would be called upon ultimately to pay the increased transportation costs here and abroad resulting from the government charges. In this connection, we should fully expect that fees and charges, if imposed here for these purposes, would soon be duplicated or adopted by other nations where, by virtue of international treaties and agreements, they do not exist today. We are sure that this Committee is concerned about the retaliatory effects on the U.S. airlines that currently serve over 70 foreign countries. Finally, the pending proposal for reimbursable Sunday and holiday Customs overtime, for all practical purposes, would officially "close" the United States to international air traffic 61 days each year unless airlines, in effect, agree to pay the cost of operating government services.

These concepts will no doubt be defended on the erroneous grounds that airlines and airline customers are "beneficiaries" or "users" of such services. However, airlines and airline passengers are not the "beneficiaries" of Customs inspection services. They certainly are "users", but only because they are required by federal law to be inspected. They receive no special benefit unique to airlines or airline customers from the inspection -- in fact, the inspection process itself is a distinct disadvantage in terms of lost time and convenience. What frequently is overlooked is that the federal laws requiring the inspection were enacted to protect the nation and all of its citizens -- by preventing the entry of undesirable products and animal and plant disease, by enforcing tariffs designed to protect American labor and business from destructive foreign competition and discrimination, and by collecting duties on imported merchandise.

As stated in the Customs Service Annual Report for 1981, the mission of the Customs Service has been extended over the years to assist in the administration and enforcement of some 400 provisions of law on behalf of more than 40 governmental agencies. The report states:

> "Today, in addition to enforcing the Tariff Act of 1930 and other customs statutes, the Customs Service enforces reporting requirements of the Bank Secrecy Act; collects international trade statistics; cooperates with other Federal agencies and foreign governments in supressing the traffic in

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> illegal narcotics; and enforces a wide range of requirements to protect the public, such as auto safety and emission control standards, radiation and radioactive material standards, counterfeit monetary instruments , flammable fabric restrictions, animal and plant quarantine requirements, and food, drug, and hazardous substance prohibitions."

It is clear that the requirements and responsibilities of the U.S. Customs Service were established by the Congress in the broad national interest, for the benefit and protection of the nation and all of its citizens. The costs of meeting such federally imposed requirements and responsibilities, therefore, should be borne by all taxpayers from the general fund. As the FY 1983 budget message of the President concludes:

> "In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will *not* be imposed." (Emphasis supplied.)

During fiscal year 1981, Customs collected a record $9.1 billion, an increase of 11.7 percent over the previous fiscal year. This represents a return of more than $18 for every dollar spent in carrying out Customs requirements and responsibilities. Indeed, the attached copy of a 15 March 1982 letter to Congressman Fortney H. Stark from Customs notes that if funds were authorized "for an additional 1,000 personnel.... Approximately $100 million in additional revenues could be collected. This represents a marginal return of about 3:1."

In view of the national purposes and benefits of

Customs inspection, and Customs' remarkable revenue generating record, we find it difficult to understand proposals to reduce Customs manpower while at the same time shifting the responsibility for the funding of Customs functions to private parties.

In summary, we strongly urge the Subcommittee to assure authorization for adequate inspector personnel at our international airports, to direct the implementation of the priority initiatives necessary to simplify the inspection process, and to consider carefully the implications and consequences of placing additional financial demands on the already limited resources of the airlines, particularly in this period of serious economic adversity.

* * *

WAYNE H. HOFFMAN
Chairman of the Board

FLYING TIGERS

FLYING TIGER LINE
7401 WORLDWAY WEST
P.O. BOX 92935
LOS ANGELES, CA 90009
(213) 646-5147 · 646-6161

February 26, 1982

The Honorable William von Raab
Commissioner Of Customs
U.S. Customs Service
Treasury Department
Washington, D.C. 20229

Dear Mr. von Raab:

Flying Tigers strongly protests the proposed termination by U.S. Customs of the Automated Manifest Control System (AMCS) as outlined in Mr. Corcoran's letter of January 27, 1982. The termination of the AMCS program will keep the United States out of the automated age and cause an already overburdened inspection and clearance system to create even more delays in the flow of U.S. international trade.

Flying Tigers has raised this issue with Congressman Roybal, Chairman of the Sub-Committee on Treasury - Postal Service - General Government of the Committee on Appropriations. I have taken the liberty of attaching a copy of our comments for your perusal. These comments do not need to be repeated other than to underscore my concern about this sudden policy reversal.

On December 4, 1980, I received a letter of appreciation from Mr. Corcoran regarding Flying Tigers' continued involvement in the AMCS program to date. To quote Mr. Corcoran "the eventual nationwide implementation and expansion of the system will provide the basis for additional automated systems that will facilitate greater control of cargo inventories and will allow speedier and more efficient movement of cargo". As early as 1980, U.S. Customs had already recognized the benefits of this test program. Mr. Corcoran clearly admitted that the program would facilitate Customs internal control of cargo while at the same time allowing accelerated clearance of cargo. It seems highly incongruous that after eight years of evaluation and proven benefits, a program would suddenly no longer provide benefits to Customs and/or to the individual carriers involved.

Flying Tigers is participating in several other test programs with Customs. These programs are designed to maintain U.S. Customs control but reduce the amount of paperwork and increase the expedited flow of cargo in the United States. I seriously question the benefit of Flying Tigers' continued participation in these programs if the U.S. Customs Service does not feel bound by commitments to programs at their inception. The inconsistency shown in the decisions made regarding the AMCS program only undermine Customs' ability to deal with carriers and to work in an environment of close cooperation.

We urge your reconsideration of a program that is not only vital to airlines but to the Customs Service. In an environment of ever increasing cargo volumes and decreasing resources for inspection, warehousing, and clearance, automation should be encouraged and not hindered. If Customs terminates this program, there is no other automated alternative available and the present delays and manpower shortages experienced by airlines would only worsen with time.

We would appreciate your serious consideration of the points raised in the attached statement and in this letter and to review Customs' policy with regard to the AMCS project. The benefits inherent in the program clearly outweigh the short term costs of conversion. We ask, therefore, that you respond to the needs of the air cargo industry and U.S. trade by reinstating this automated cargo system.

Yours sincerely,

Wayne M. Hoffman
Chairman of the Board

cc: The Honorable Edward R. Roybal
Chairman
Sub-Committee on Treasury - Postal Service -
General Government
Committee on Appropriations

/mss
Attachment

PERSONAL VIEW AE

Let's Stop 'Pay-as-You-Go' Customs

To the list of barriers, inconveniences, and assorted costs that governments would put in the path of the airlines and their passengers, you can add a new one from the U.S. Treasury Department: user fees to pay for inspections by the Customs Service.

Assume this cockamamie proposal is approved. It is peak season. You are a passenger who has waited in a customs line at the Los Angeles International Airport for two or more hours following a long overseas flight. At the end of this mini-ordeal you will be hit with a fee of about $5 for the "service" that was provided when an inspector went through your luggage.

But the bureaucratic mugging doesn't stop there. The carriers, forwarders, and shippers will also be expected to pay. Air freight shipments valued at more than $250 would be assessed about $25. The fees that would be charged directly to carriers have not been announced.

Altogether, Customs wants to raise $440 million this way. Further it has been suggested that the agriculture and immigration departments get in on the act, raising the grand total to more than a half-billion dollars annually.

There are several things to say about this audacious scheme.

One: Customs already raises a tremendous amount of money for the U.S. treasury, having collected a record $9.1 billion in fiscal 1981.

Two: If passed, the user fees would surely set off an uproar abroad, leading to retaliation from America's biggest trading partners and staunchest allies.

Three: The Reagan Administration, in this case, has taken improper liberties with the user fee concept. User fees have traditionally been levied on the beneficiaries of a government service. Thus, for example, the Administration wants to raise the domestic air ticket tax for passengers from 5% to 8% because they will be the users and beneficiaries of the resulting $10-billion overhaul of the nation's air traffic control system.

While it is true that passengers who wait in lines at the airports to have their luggage searched are users, it is also certain that they are not the beneficiaries.

Four: Customs has never been a friend of the industry. The agency has been dragged kicking and screaming along with virtually every facilitation advancement in its area that has improved the lot of the airlines and their passengers. This applies to the preclearance procedure whereby international passengers are inspected abroad by U.S. Customs prior to departure in order to alleviate congestion at U.S. airports. The same intransigence applied to the recently launched one-stop clearance experiments combining customs with agriculture and immigration inspections at Miami and Los Angeles.

Five: The carriers are already required to make unfair payments to Customs. The international airlines serving the U.S. now pay about $15 million annually for the overtime work of customs inspectors and about $10 million a year to airport authorities for the facilities used by the inspectors. In this respect, the carriers are already paying customs user fees.

With the Air Transport Association and other industry groups as watchdogs, *AE* expects that Congress will trash this unfortunate idea without too much dawdling.

Customs Should Get the Message

There is one more thought that comes to mind. The recently passed National Tourism Policy Act mandated formation of an interagency policy council to weigh the impact of government actions on the travel business. It was the wish of the legislators that the council stop just such an anti-travel proposal as is being aired in this space.

The first act of the council, headed by commerce under-secretary Peter McCoy, was to set up a working group to concentrate on facilitation problems facing international travelers arriving in the U.S. The membership includes the Customs Service.

Having let the fox into the hen house, it will be interesting to see how forceful Mr. McCoy's group is in helping to bury the pay-as-you-go customs plan proposed by one of its own members.

Don Kuhler

BEST COPY AVAILABLE

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
WASHINGTON

MAR 3 0 1982

REFER TO
BUD-1-CM:F:PL VBS

Dear Mr. Stark:

In your letter dated February 15, 1982, you raised the question of how much additional revenue could be collected if Customs were authorized funds for an additional 1,000 personnel, to be allocated to the categories of import specialists, auditors, special investigators, and inspectors.

Approximately $100 million in additional revenues could be collected. This represents a marginal return of about 3:1. These additional resources would be allocated among various on-going programs that emphasize special enforcement processing of small numbers of cargo shipments and entries that have been selected out as high risk for violations, including potential revenue losses. These selectivity programs include laboratory analyses, selective audits of importers and commodities, fraud investigations and cargo inspections.

Although in FY 1981 Customs collected almost $18.50 per dollar expended from the total budget, the marginal returns from additional staffing will be much lower, because of the high level of compliance that already exists overall among U.S. importers and travelers.

Thank you for your interest in Customs.

Sincerely,

for Jack T. Lacy
Comptroller

The Honorable
Fortney H. Stark
House of Representatives
Washington, D.C. 20515

REPLY TO: COMMISSIONER OF CUSTOMS, WASHINGTON, D.C. 20229

BEST COPY AVAILABLE

Mr. GORSON. We appreciate the opportunity to appear before the subcommittee to discuss certain aspects of the fiscal year 1983 budget proposals for the U.S. Customs Service, since 19 of our member airlines provide scheduled air service to the United States from more than 70 countries.

We commend you, Mr. Chairman, and the other members of this committee for the initiative and leadership taken since last year with respect to the testing of the General Accounting Office one-stop passenger facilitation concept, called ASIST, Accelerated Specialized Inspection System Test, at the Miami and Los Angeles international airports. The Comptroller General in his report of March 22 concluded: "The one-stop inspection system is an improvement over the procedures used in the past."

Indeed, the report notes that the time it takes to clear Customs has been reduced by one-third. This is an important first step toward development of a more selective expeditious passenger inspection system which can and should be expanded nationwide.

The collection of Customs duties last year, for example, on imported merchandise at Kennedy International Airport alone was the third largest of any U.S. port of entry, amounting to $855 million. In 1981, visitors from abroad contributed over $12 billion to the economy of the United States and produced approximately $1.4 billion in Federal, State, and local taxes. A similar level of expenditures and tax receipts, we believe, will be obtained in 1982. Foreign travel dollars represent our third largest source of export earnings. Yet, we fail to recognize the importance of this contribution to our national economy and continue to discourage and inconvenience international visitors and shippers with long lines and extensive delays during the customs process. These delays, for the most part, are the result of inadequate Customs staffing and the unnecessarily complex inspection procedures.

The fiscal year 1983 Customs budget proposals include further expenditure reductions in the personnel area which, we understand, may reduce airport inspector levels by more than 150 positions. This would be comparable, Mr. Chairman, for example, to eliminating the entire Customs passenger inspector permanent staffing complements at the Chicago, Houston, Los Angeles, and Miami airports. Inspector staffing levels today are often inadequate to meet current airport inspection demands. This will worsen significantly in the coming peak international travel period beginning next month, and action to resolve it is needed urgently now. Either adequate numbers of inspectors must be authorized, or a high priority program to reduce inspector workload—that is, through modernization, simplification, and consolidation of the functions of the several inspection agencies—must be initiated. In this regard, we strongly urge:

One, extension of the GAO one-stop accelerated specialized inspection system, ASIST, to airports of entry on a nationwide basis.

Two, extension of preclearance—that is, the inspection of air passengers prior to departure in the foreign country rather than on arrival in the United States—to more locations abroad.

Three, undertaking on a priority basis an exploration of, and reaching decisions on, ways to consolidate the functions of the several inspection agencies: Customs, Immigration, and Agriculture.

Four, introduction of further Customs sampling techniques for processing international air passengers and cargo. For example, Customs could waive duties for less than $10 for travelers. This would significantly speed up the flow of travelers through their formalities. We have drafted legislation which I could submit for the record in this regard, if you wish, Mr. Chairman.

Finally, simplification of the processing of international air freight wherever possible through a Customs automated inventory control system linked to airline computers.

Not only does the question of adequacy of Customs staffing at international airports arise again this year, but new concepts for funding federally required inspections outside the Federal budget—that is, funding by airlines and airline passengers—are surfacing. We understand that legislation is still under consideration by the Department of Treasury to permit the Customs Service to introduce a user fee package for recovering millions of dollars of direct and indirect Customs inspection administrative costs. The costs of these pay-as-you-go Customs services to be recovered from users is estimated, we understand, to be about $440 million on an annual basis.

The effect of charges of this magnitude would be devastating both to the airlines now suffering unprecedented financial losses due to the current economic situation and to airline customers already burdened by inflation, who would be called upon ultimately to pay the increased transportation costs here and abroad resulting from the Government charges. We would fully expect that fees and charges, if imposed here for these purposes, would soon be duplicated or adopted by other nations where, by virtue of international treaties and agreements, they do not exist today.

It is clear that Customs requirements and responsibilities were established by the Congress in the broad national interest for the benefit and protection of the Nation and all of its citizens. The costs of meeting such federally imposed requirements and responsibilities, therefore, should be borne by all taxpayers from the General Fund. As the fiscal year 1983 budget message of the President states: "In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will not be imposed."

I was interested in the comments of Senator Bentsen as he noted earlier that, if Customs funds were authorized for an additional 1,000 personnel, approximately $100 million in additional revenues could be collected.

Attached to our statement is a copy of a letter to Congressman Stark in this regard from Customs.

In view of the national purposes and benefits of Customs inspection and Customs remarkable revenue generating record, we find it difficult to understand proposals to reduce Customs manpower while at the same time shifting the responsibility for the funding of Customs functions to private parties.

In summary, we would strongly urge that adequate inspector personnel be authorized and that implementation of priority initiatives necessary to simplify the inspection process such as the successfully tested GAO one-stop inspection procedure be extended to all airports willing and able to implement it.

That concludes my remarks, Mr. Chairman. I and Mrs. Pinegar would be glad to respond to questions if there are any. Thank you.

Senator DANFORTH. Thank you very much for your very helpful testimony. We will review it in its entirety with great care.

Mr. GORSON. Thank you, sir.

Senator DANFORTH. The meeting is adjourned.

[Whereupon, at 11:05 a.m., the hearing was adjourned.].

[By direction of the chairman the following communications were made a part of the hearing record:]

Recd 4/30/82

American Association of
Exporters and
Importers 11 West 42nd Street, New York, NY 10036 (212) 944-2230
Cable: AAOEXIM

April 30, 1982

Robert E. Lighthizer, Esq.
Committee on Finance
Room 2227, Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Mr. Lighthizer:

The following is the statement of the American Association of Exporters and Importers (formerly the American Importers Association) regarding the proposed FY 1982 Budget for the U.S. Customs Service, the International Trade Commission, and the U.S. Trade Representative.

U.S. Customs Service

AAEI is particularly concerned over the substantial reductions in personnel and resources proposed for Customs in the coming fiscal year. We understand that a major part of the reductions will be applied to Customs operations functions. While we believe that Customs may be able to absorb some further reductions in resources, we feel strongly that cuts in trade operations will work to the detriment of U.S. business interests and ultimately the economy. Any further reductions should be confined to administrative functions, particularly at the Regional level.

Historically, Congress has sought to ensure that the processing of commercial cargo through U.S. Customs not become a barrier to trade. Successive amendments to the Customs Service's statutory authority, the Tariff Act of 1930, have encouraged prompt and efficient release of cargo and assessment of duties.

The Customs Service, which is one of the very few revenue-producing agencies, has always maintained a conservative fiscal and personnel policy in spite of its large net returns to the general revenue. In 1980, it cost Customs only $6.55 to collect each $100 returned to the U.S. Treasury. Consequently, there is now very little, if any, fat to be trimmed from the Customs budget. Overall budget cuts in the last several years have resulted in the reduction of services essential to efficient processing of cargo and ultimately in higher costs to the general public.

Importers and exporters are corporate taxpayers and support the reduction or elimination of wasteful government programs. AAEI members recognize that some budget items which we support may have to be cut. We also believe that judicious budget cutting can force agencies to adopt more efficient methods of carrying out their mandates. We have already seen such beneficial effects in the Customs Service as it begins the difficult process of implementing automated data processing procedures to replace manual processing.

Nevertheless, Customs' resources have been diminished to the point where it will be unable to continue processing goods and passengers without significant increases in costs and delays. Decreases in services essential to the smooth flow of trade set in motion a series of counter-productive effects. To the extent that they raise the cost of doing business, affected products carry a higher price. As the products pass through the chain of processors, distributors, and retailers, that increased cost is compounded. The consumer thus feels an inflationary impact resulting from policies meant to reduce inflation. To the extent the extra cost is not passed on to the consumer and is borne by the importer or others in the chain of distribution, it lowers profits and reduces corporate tax payments.

Delays in processing may also affect our export trade.

AAEI feels strongly that Customs' greatest opportunity for long term budgetary efficiency is to move away from its traditional paper-intensive and repetitive entry processing procedures. Such a change can be accomplished without compromising Customs performance of its numerous mandates. What is needed, we believe, is a willingness on the part of both Customs and the importing community to consider significantly different approaches to longstanding procedures. AAEI has been working with the Joint Industry Group and the Customs Service to begin developing such approaches.

In the meantime, we urge that Customs budget reductions be concentrated particularly at the Regional level and that no major reductions be implemented in activities with the potential to burden the flow of trade.

International Trade Commission and U.S. Trade Representatiave

Particularly during this period of international economic recession, AAEI urges this Committee to provide generous authorizations to agencies which are in a position to facilitate and expand both U.S. export and import business. Increased U.S. exports are crucial to a solid domestic economy and a healthy import trade both provides lower-cost alternatives to hard-pressed U.S. consumers and contributes to healthy economies for our trading partners enabling them to purchase additional exports from the United States.

Both these agencies are carrying out extensive and burdensome programs designed to promote healthy domestic and international economies. Their ability to carry out these functions should be burdened no more than absolutely necessary.

AAEI appreciates the opportunity to present its views on these budget authorizations for Fiscal Year 1982. We would be pleased to provide such further information as you find necessary.

Very truly yours,

Lee A. Greenbaum

Lee A. Greenbaum
President

LAG:ck

Travel Industry Association of America

1899 L Street
Northwest
Washington, D.C.
20036

Telephone
202
293-1433

DISCOVER AMERICA

May 12, 1982

The Honorable Robert J. Dole
Chairman, Committee on Finance
United States Senate
2227 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Chairman Dole:

Pursuant to the Subcommittee's April 14 hearings on the FY 1983 authorization for the U.S. Customs Service, I respectfully submit my comments for inclusion in the official hearing record.

The Travel Industry Association of America (TIA) is the national trade association of the U.S. travel and tourism industry. The considerable interest of our 1800 member organizations in an efficient and adequately staffed Customs Service, is obvious. Nonetheless, Customs has been under-staffed and thus inefficient for quite some time.

Prolonged delays in the clearance of foreign visitors at U.S. ports of entry is becoming a problem of major proportions. A 1979 Comptroller General report found that the average processing time for air travelers in Los Angeles is 81 minutes, in Miami 59 minutes, and in New York 52 minutes. During peak periods, processing time can reach almost two hours. Furthermore, with no increase in Customs inspectors, and assuming current practices, it has been estimated that processing time will more than double by 1990. Clearly, these delays are intolerable at present levels, future processing time increases notwithstanding.

Given the Administration's FY 1983 budget requests, the situation will inevitably deteriorate. The budget projects 1983 increases of 6.9% in formal entry, 3.3% in carrier inspection and 2.9% in persons arriving from foreign countries. The 1983 level of inspectors and import specialists, however, will be virtually the same as 1972,

TIA, formerly Discover America Travel Organizations, Inc.

Chairman
Edward R. Bock
Chairman of the Board & Chief Executive Officer
Hershey Entertainment & Resort Co.

First Vice Chairman
William Edwards
President
Hilton Hotels Division
Hilton Hotels Corporation

Second Vice Chairman
Joseph Lapensky
President & Chief Executive Officer
Northwest Airlines, Inc.

President
William D. Toohey
President
Travel Industry Association of America

Secretary
William H. Thurman
Vice President & General Manager
Busch Entertainment Corporation

Treasurer
Gabriel Phillips
Senior Vice President - Traffic Services
Air Transport Association of America

while the number of persons inspected since then has grown by over 40%.

While we understand and appreciate the efforts of the Congress and Administration to achieve budgetary constraint, this discrepancy between workload and personnel cannot be allowed to continue. We are grateful for the efforts of the Chairman and members of this Committee to modernize and simplify the federal inspection process through the testing of GAO one-stop ASIST. This program has demonstrated encouraging results and should be expanded. Without such programs, congestion and inconvenience at U.S. ports of entry will worsen, and many more inspectors, not less, will be the only solution.

We believe, however, that vastly increasing numbers of inspectors need not be the only answer. Effective inspection simplification, which would allow Customs personnel to concentrate on high-risk passengers and cargo, will increase inspector productivity without multiplying staffing needs. To meet this objective we urge that the following be approached on a national priority basis:

- o study of the three primary inspection agencies and possible consolidation of all inspection functions;
- o expansion of the pre-clearance program which allows inspection of passengers prior to departure rather than upon arrival;
- o extension of GAO one-stop ASIST to all U.S. gateways.

Of additional concern is the imposition of user fees on transportation companies for Customs inspections. Private providers of international transportation are users only inasmuch as they are required by federal law to undergo inspection. No "service" is thus rendered which confers some unique benefit beyond what the agency was created to give to the general public. For this reason we believe that Customs funding should be appropriated from the general fund.

During FY 1983, Customs collected a record $9.1 billion. This is an increase of nearly 12% over the previous year and represents a return on $18 for every federal dollar spent on the Customs function. TIA contends that this is a remarkable return on a fairly minimal investment. If we are to see these revenues continue to grow, as well as meet Congressionally mandated objectives to expand inbound foreign travel, we cannot continue to overburden and underfund the U.S. Customs Service.

We appreciate your attention to this matter and will be happy to provide you with any additional information at your request.

Sincerely,

William D. Toohey
President

WDT:dl
cc: Claud Gingrich

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